

## How to Make a Living in Insular Areas – Six Nordic Cases



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### **Nordic co-operation**

takes place among the countries of Denmark, Finland, Iceland, Norway and Sweden, as well as the autonomous territories of the Faroe Islands, Greenland and Åland.

### **The Nordic Council**

is a forum for co-operation between the Nordic parliaments and governments. The Council consists of 87 parliamentarians from the Nordic countries. The Nordic Council takes policy initiatives and monitors Nordic co-operation. Founded in 1952.

### **The Nordic Council of Ministers**

is a forum of co-operation between the Nordic governments. The Nordic Council of Ministers implements Nordic co-operation. The prime ministers have the overall responsibility. Its activities are co-ordinated by the Nordic ministers for co-operation, the Nordic Committee for co-operation and portfolio ministers. Founded in 1971.

### **Nordregio – Nordic Centre for Spatial Development**

works in the field of spatial development, which includes physical planning and regional policies, in particular with a Nordic and European comparative perspective. Nordregio is active in research, education and knowledge dissemination and provides policy-relevant data. Nordregio was established in 1997 by the Nordic Council of Ministers. The centre is owned by the five Nordic countries and builds upon more than 30 years of Nordic cooperation in its field.

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# Preface

This volume reports on the results of the project *Challenges to insular income systems in the Nordic Countries*. The project was originally undertaken on the initiative of the late Lars Olof Persson, and was based on some of his previous projects in the labour market and rural development fields. Lars Olof Persson was the original project leader, but due to his premature death, leadership of the project fell to Margareta Dahlström. The project remains however firmly anchored in Lars Olof's ideas, and we dedicate the report to his memory.

Together with Persson and Dahlström, Tage Petersen from the Centre for Regional and Tourism Research (CRT), located on Bornholm, participated in a project management group that played an active role primarily in the initial phase of elaborating the project design. CRT furthered its project participation by co-financing the project's activities, while integrating the project work with its other ongoing activities within the field of Island Studies, which is a strategic research area for the Centre.

The project is a collaborative study between the following six Nordic institutions:

- The Lönnrot Institute, Kajaani University Consortium, University of Oulu
- Møre Research
- Nordregio
- Statistics and Research Åland
- The Centre for Regional and Tourism Research, Bornholm
- University of Akureyri Research Institute

The basic funding for the project came from Nordregio with additional funding coming from the Nordic Council of Ministers, under the auspices of the Icelandic chairmanship of the council in 2005. This basic funding package covered the research work undertaken by Nordregio staff members and part of the Icelandic research workload. In

addition, it also covered the costs of three full project team meetings that took place in Stockholm, Nexø and Akureyri respectively. The project was presented and discussed at a Japanese-Swedish workshop at Mid-Sweden University in August 2004, and at an international Island workshop held on Bornholm in April 2005. The project has been presented at two seminars within the context of the NISSOS-project, concerning entrepreneurship and SMEs on small islands.

Project research was also funded through:

- The Finnish Ministry for Agriculture and Forestry, which supported the fieldwork undertaken in the Kainuu region through the PALMA project
- Volda University College, The University of Bergen and The Strategic Institute Programme for Møre Research
- The Government of Åland, and Statistics and Research Åland
- The Icelandic part of the study was partly funded by KEA-coop, the cooperative of Eyjafjörður

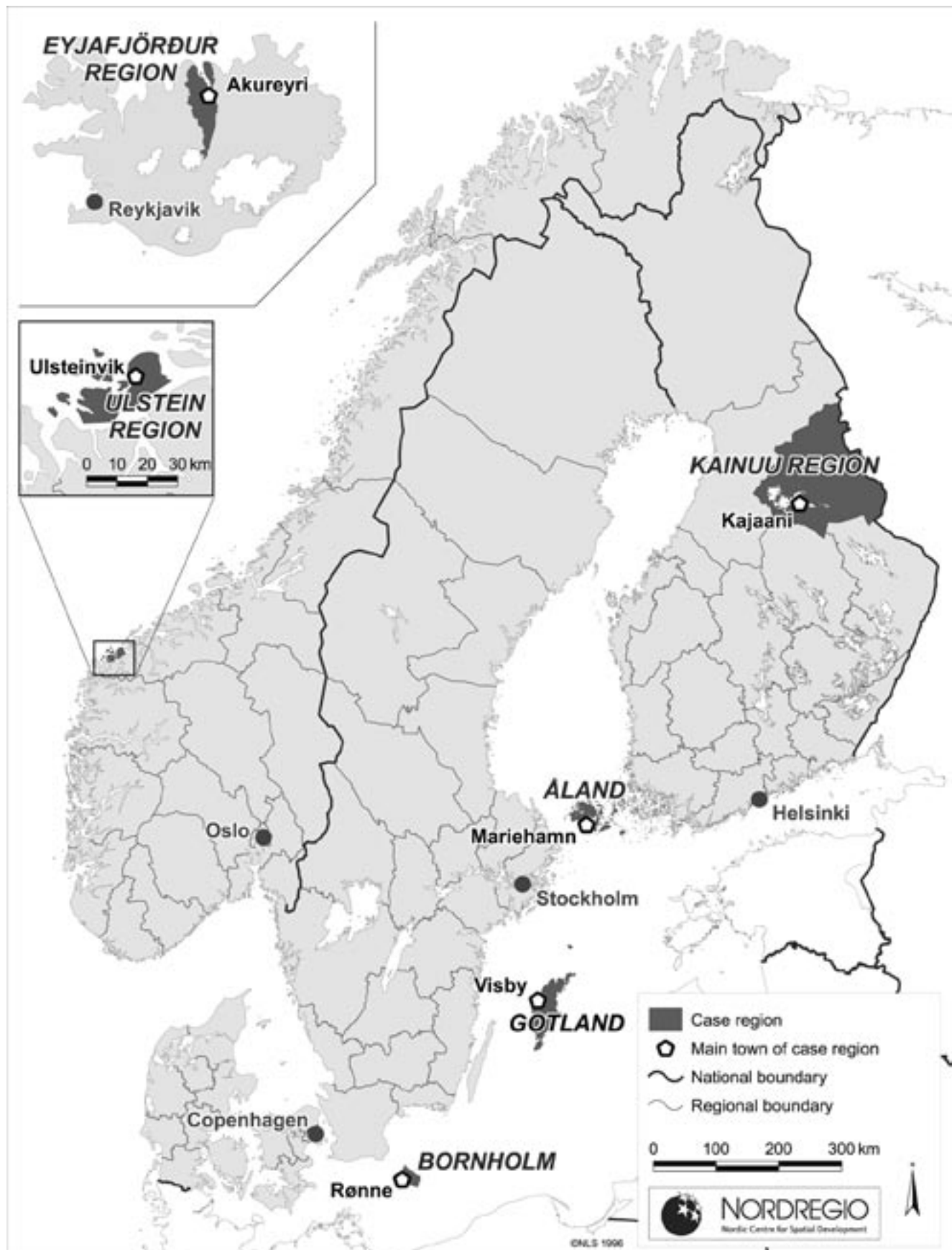
On behalf of the research team, we wish to thank the key informants and the biographic interviewees in all six case study areas for their time and input. This research would not have been possible without their kind participation. In addition, we would also like to thank Åsa Pettersson for her support throughout the various stages of the project, Sara Östberg for her editing work with the final report, Chris Smith for language editing, and finally, Sirpa Korhonen and Heikki Keränen for their support rendered on the Kainuu chapter.

Stockholm, April 2006

*Ole Damsgaard*  
Director of Nordregio

*Margareta Dahlström*  
Project leader

Figure 1.1 Reference map of the six case study areas





# 1. Making a Living in Insular Areas

Elisabeth is trying to make herself a career as an actress and cultural worker where she grew up in an insular Nordic area. While still at school, and for a while thereafter, she had several part time jobs in the care sector while also temping as a music teacher. As well as receiving some income and work experience, she gained valuable networks of her own through these jobs. She then moved to London where she studied at a drama college. After finishing her studies, she moved back to her native country and worked as a freelance actress both in the capital and in her home region. While living in the capital, she missed the life style of her home region, the nature, the social life with old friends and family, and her roots. After a while, she decided to return there and settle down in her parents' house where she feels that the surroundings and her sense of belonging

stimulate her creativity. However, there is no obvious way for her to make a living in her profession in this region, so she has had to create her own way of making an income. Drawing on personal and professional networks where she lives, she has been able to find various ways of earning an income as a freelance cultural worker. This would not however have been possible if she had not been able to live in her parents' house, where her living costs were negligible.

This story of one of the persons interviewed in the context of this study helps us to pose the overall question: How do people generate an income in insular areas, where a daily commute to a neighbouring labour market is unrealistic?

## Six Nordic Insular Areas

This study focuses on the following six insular areas in the Nordic countries (see figure 1.1 for a reference map):

- Bornholm in Denmark
- The Eyjafjörður region in Iceland
- Gotland in Sweden
- The Kainuu region in Finland
- The Ulstein region in Norway
- Åland.

Insular areas do not have to be islands surrounded by water; they can be insular due to the sheer distances involved, or due to difficult terrain. The concept *insular* means that it is not realistic to commute on a daily basis to a neighbouring labour market and therefore the areas are insulated in terms of opportunities for the population to make a living there. Because these labour markets are insular, they cannot fully operate as markets. There are often other types of processes matching the labour supply and demand. It is moreover, also often necessary to take special steps to recruit key professionals to these areas, e.g. within the medical profession. Over a year, and a working life, individuals who live in these insular areas are likely to move between the labour market, i.e. having a job or being self-employed, and other parts of the income system. These other parts of the system may be education and training, unemployment or parts of the social insurance system.

People may also find their income to be either fully or partly in the 'black economy', i.e. through working outside the tax system or earning an income through letting property to tourists. Another option may be to move out of the area to earn a living elsewhere, either as a weekly commuter or to take the full step of moving away from the area. In many insular areas, people are multiple jobholders or combine various types of income sources.

The income systems in these insular areas have developed over the years both in terms of the matching processes on the labour market and in terms of developing other ways of making a living. Local conditions, traditions, and policies affect how this development shapes the opportunities for those living in these areas, but so do external factors. Ongoing internal and external developments pose significant challenges to these income systems. The long term shifts in the economic structure away from primary industries and manufacturing is one such factor, the different needs of labour that the expanding sectors have is another. The expansion of both private and public sector services usually entails a greater need for labour with higher educational qualifications and different types of skills from many of those that have lost their jobs through economic restructuring. Other challenges to the income systems in insular areas include the demographic structure and development, including factors such as an ageing

population and out-migration, particularly of young people. The tougher nature of international competition and the globalisation of markets also affect the income systems of these insular areas, as do the various rules and regulations of the EU and the EEA.

All around the Nordic countries, insular areas exist that share some of the characteristics described above. However, based on their own conditions and contexts, people and institutions try to deal with the issue of how to make a living in these areas in their own ways. How do people find a job or start a company in insular areas? What actions are taken by the authorities and other key actors to facilitate people in making a living in these areas, both currently and in the long term? Can we learn from each other with

regard to the creation of opportunities to make a living in insular areas in the Nordic countries? These questions form the heart of this study and immediately point to the need to focus on the structural and institutional situation pertaining in each area as well as to the actual situation of those individuals making their living in the insular areas in question.

The aim of the project is to develop a theoretically based, and practically useful, 'Nordic knowledge and experience bank' on income systems in insular areas. The project therefore particularly targets policymakers, practitioners and researchers interested in labour market and regional development issues in insular Nordic areas.

## Project Design and Methodology

The project undertaken here was a collaborative effort which saw a team of researchers jointly develop the project, which was itself generated from a number of previous research projects within the broad field of labour market research and regional development. The initial driving force behind the project was Lars Olof Persson from Nordregio, who drew on his own work with labour markets and regional development in rural areas in Nordic and other European countries.

The research team came together for a kick-off meeting in Stockholm in March 2004. At this meeting, the two basic models underpinning the project; the *transitional labour market* model and the *dynamics of rural areas* (DORA) model were discussed in more detail. Based on these models, the researchers jointly elaborated the theoretical themes and the methodology regarding both the institutional and individual sides of the research. These models have structured the study and they have provided tools in terms of which factors to focus on and explore in each of the six case study areas. All of the researchers in the team also contributed with input to the more theoretical aspects of the study in line with the different expertise and backgrounds they represented. All of the case studies address the same themes; the background of the area, economic structures, the characteristics of the labour force and the labour market, and policies and strategies regarding the labour market and regional development. These empirical case studies are based on a combination of published material, reports, statistical information, and interviews with key persons<sup>1</sup>. Furthermore, each case study also includes a biographical study where individuals have been

interviewed about their transitions in the income system. This qualitative survey involved a selection of people who were selected on the basis that they exemplified individuals with different characteristics and varying opportunities to generate an income. Particular attention was paid to finding people who had made several transitions and had succeeded in finding various ways of making a living. As a result, the interviewees are all over 25 years of age.

The biographical study involved six basic categories of interviewees, with the aim being to interview a man and a woman in each category in each of the case study areas. The categories are not however mutually exclusive, and, as such, the same person may fit into more than one category. Table 1.1 provides an overview of the biographical interview categories.

In addition, a quantitative survey of business start-ups in all six case study areas was undertaken. The initiative for this survey was taken by Jesper Manniche and Tage Petersen at CRT who designed the survey and were in charge of this side of the project. All researchers provided input to this study, but the main responsibility for the analysis and the writing up of the results rests with the Bornholm team that also included Nino Javakhishvili Larsen, CRT, and Stefania Testa, University of Genoa, Italy. The methodology of the business start-up survey is described in more detail in chapter 9.

The second project meeting was held in Bornholm, in October 2004. At this meeting, the main part of the fieldwork was finished while particular attention was paid to discussing a preliminary analysis of the results from the fieldwork. The final project meeting took place in Akureyri in the Eyjafjörður region in March 2005. The meeting included a review of the theoretical themes in the light of the case study work and a discussion of the preliminary results of the business start-up survey. A preliminary discussion of

<sup>1</sup>These key persons are listed at the end of each case study chapter. For the Ulstein region, no names are listed to maintain their anonymity.

*Table 1.1 Biographical interview categories*

Category of interviewee	Definition of category
<i>Young unskilled with transition history</i>	An individual who is 25–40 years old with lower level education. Has experience of transitions in the income system.
<i>Older lower skilled with transition history</i>	Same as above, but over 55 years of age.
<i>Key professional</i>	An individual with professional/key qualification or key occupation for the particular case study area in focus. Can be e.g. medical doctor or engineer. Above 25 years of age.
<i>Born local</i>	An individual who was born in the case study area and who has used networks to make a living. Above 25 years of age.
<i>Newcomer who has started a business to make a living</i>	An individual who is over 25 years of age and who has lived in the case study area for at least five years.
<i>Newcomer who works in a company that is not dependent on the local context</i>	This could be an individual who works either in a company or organisation outside the case study area or is a self-employed consultant working from home. Ideally an individual who has lived for a minimum of five years in the case study area

potential crosscutting themes generated out of the fieldwork was also undertaken.

The integrated approach adopted during the three project meetings has thus been an essential way of developing the project and the outcome analyses. All of the researchers involved have also had the opportunity to comment on the various drafts of all the chapters and on the final version of the report. This is why all of the researchers appear as authors to the entire report. Individual authors (or author teams) did however have responsibility for the production of the various chapters containing the case studies researched:

- Tage Petersen and Jesper Manniche: Bornholm
- Hjalti Jóhannesson: The Eyjafjörður region
- Margareta Dahlström and Sigrid Hedin: Gotland
- Andra Aldea-Partanen: The Kainuu region
- Grethe Mattland Olsen: The Ulstein region
- Katarina Fellman: Åland

As project leader, Margareta Dahlström had responsibility for drafting chapters 1, 2, and 10 as well as overseeing the overall editing of the report.

## Outline of the Report

This report is divided into ten chapters. Following this introduction we have a theoretical chapter that provides a brief discussion of some of the key concepts underpinning the study. This chapter supplies some of the building blocks that both steer the focus of the case studies and the analysis of the empirical research. This chapter should thus be seen as an introduction to the concepts that can be of use in the understanding of the structure and development of insular labour markets. The following six chapters are the case study chapters that are organised in alphabetical order after the name of the region; Bornholm, Eyjafjörður, Gotland, Kainuu, Ulstein and finally Åland. The business start-up survey is reported in the penultimate chapter. The tenth and final chapter of the report provides an analytical discussion of the studies of all six case study areas, including a comparison where some similarities and differences

are highlighted and some ‘soft’ policy recommendations are made.

The report was written with the intention of making it possible to read individual case study chapters, the chapter about the business start-ups, and the final chapter without having to read the entire report. Cross-references to the more theoretical chapter are made in these chapters to facilitate a link to the models, literature, and concepts.

This report is, above all, aimed at those interested in the Nordic countries. Hence, we take a certain level of knowledge of the Nordic countries for granted. For the case study areas, some basic descriptive background is provided so that the focus on the income system in these areas, and on how policies and initiatives may support the ability of individuals’ to make a living in these areas, is set in a broader context.



## 2. Insular Income Systems – Concepts, Perspectives and Tools

In this chapter some of the key concepts and theories applicable to studies of insular income systems are presented. This chapter should be seen as an introduction to the concepts that can be of use in the understanding of the structure and development of insular income systems.

The chapter is divided into five sections. The first two sections provide an overall description and discussion of two comprehensive models of general interest for the analysis of insular income systems. The first model deals with

the transitional labour market systems and gives an overview of the system as a whole. The following section presents the so called DORA (Dynamics of Rural Areas) model used in the analysis of diversity in economic performance between different rural and insular areas.

In the two general models a number of key concepts and factors are presented that help us to better understand the issue of insular labour market areas. Some of these factors are further elaborated in the following sections.

### Transitional Labour Markets and Income Systems

The concept of the *transitional labour market* was launched by the OECD in the mid 1990s and was initially developed and applied to an analysis of national labour markets across Europe (Schmid 1995). Ceccato and Persson (2002) further developed and empirically ‘tested’ the model at the level of the local labour market (Dahlström & Persson 2005). The model of the transitional labour market system, developed by Schmid (1998), here depicted merely as an income system, functions as a comprehensive description of the labour market system in insular areas.

According to Dahlström & Persson (2005), transitional labour markets are defined as legitimate, negotiated and politically supported sets of mobility options for the individual. Recent research indicates that, in the context of producing a successful employment policy, the issue of the frequent shifts in any individual’s status within the different sectors of the labour market system has become increasingly important.

In transitional labour market theory, employment gains a new meaning. In classic labour market theory, employment was more narrowly defined, more or less as the male breadwinners’ full time occupation, based on a long-standing contract with the same employer. In the emerging transitional labour market, employment is rather a temporary state or the current manifestation of long-term employability. The prototype for this employment concept is the network labour market, with flexible entries and exits contingent on opportunities and individual expertise and continuous and flexible paths of accumulating work experience.

Transitional labour markets are used as both a theoretical and a policy-oriented concept. They are based on ob-

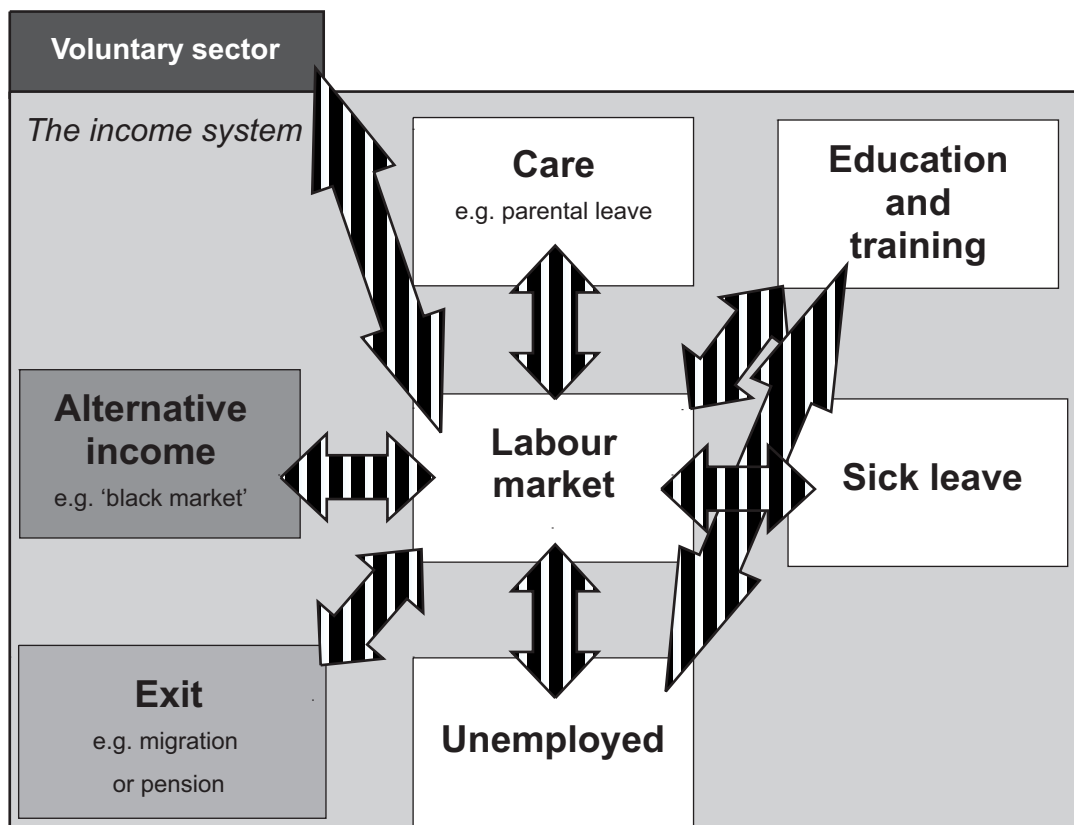
servations that the border between the labour market and other social systems – the educational system, the private household economy, etc., are becoming increasingly blurred. The important policy recommendations are that these boundaries should become more open for transitions between formal employment and productive non-market activities. Moreover, the opening up of these boundaries should reduce the permanent insider/outsider problem, which is typical of modern labour markets (Dahlström & Persson, 2005).

The transitional labour market systems model in insular areas focusses on the relations between different parts or sectors of the system in terms of the transition of individuals from one sector to another. The model demonstrates the income options available for each individual, and can be used to describe the flows of people within the system. Paid employment is the most important sector in the system, since it impacts on many of the other support sectors in the model such as parental leave, sick leave etc.

A transition between different sectors in the system on an individual level occurs both on a yearly basis in terms of seasonal employment and over the life course of each individual. In insular labour markets, multiple job holding is particularly common, and implies transitions both within the labour market and between the labour market and other support systems such as unemployment benefit. The focus on *individual transitions* between different forms of income makes the use of the term *income system* more accurate when describing it as a schematic model applied to insular labour markets (figure 2.1 on next page).

The labour market is centrally placed in the model since this is the most important part of the income system.

Figure 2.1 The transitional income system model. Source: Dahlström & Persson, 2005, adapted after Schmid (1998)



Furthermore, the individuals' position in the labour market plays a major role in terms of factors such as the amount of the sickness benefit attained, the level of income gained during periods of parental leave and the future pension accrued. The transitions between different parts of the income system are crucial for the functioning and sustainability of the system and for the individuals' capacity to generate an income. The arrows in the model are 'shorthand' for a multitude of possible transitions, here mainly pointing at the transitions in and out of the labour market. Other transitions are, of course, possible such as e.g. between 'education and training' and 'care'.

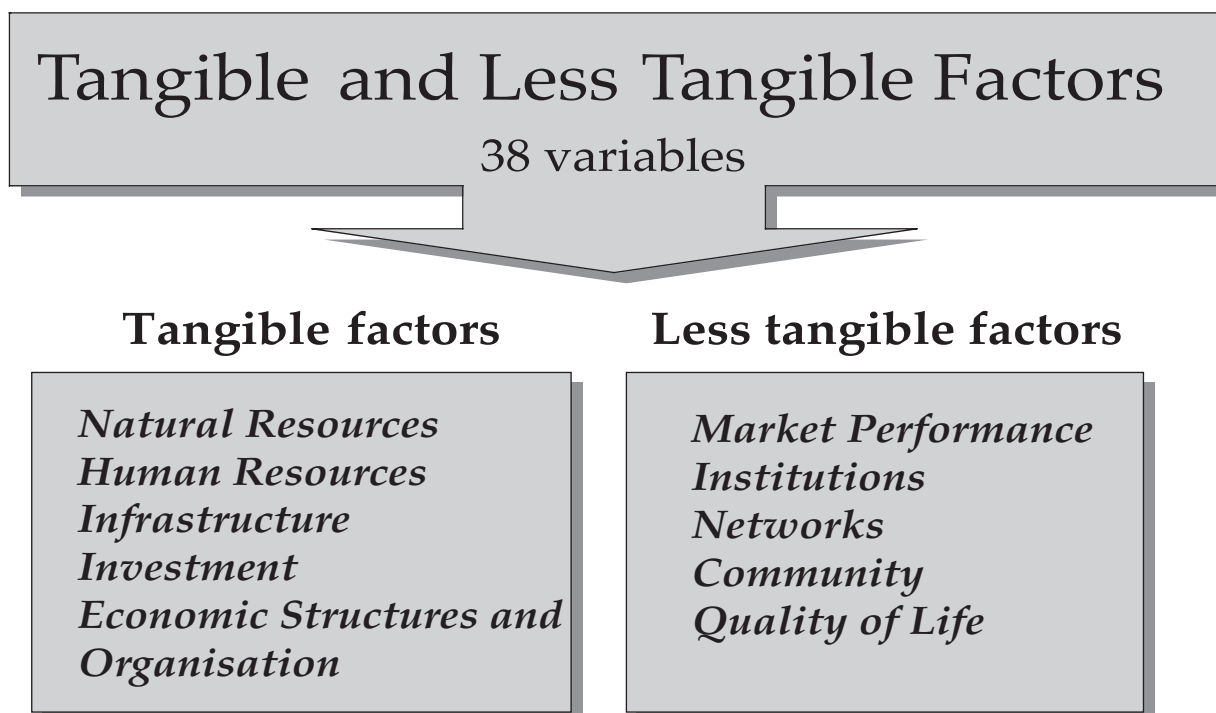
Furthermore, transitions to the labour market do not always occur directly from e.g. unemployment to the labour market, but may take in a period of training or further education as well. The arrow between those two boxes in figure 2.1 indicates such a case. This particular path to the labour market is one that is often used in policy initiatives aiming at increasing opportunities for those unemployed to help them regain a position in the labour market. In addition, individuals' may gain entry to the labour market with the help of voluntary work – activities that are outside the income system since such work is un-

paid. Examples of such a path to employment can be via personal networks in associations such as sports clubs or other societies that facilitate the unemployed to find paid employment.

Income systems, i. e. the full range of activities that the work force is getting paid for by employers in the private or public sector, including the social insurance system, are defined by a set of policies, institutions and agreements influencing interaction between the production systems and the labour market systems. The outcome of this interaction determines the quality and quantity of employment.

The way in which transition between sectors in the system occurs is dependent on both formal and informal institutions. The formal institutions concern for example legislation, policy and planning at different geographical levels. The informal institutions can be exemplified by local cultures, traditions and social networks. For example, studies in Sweden have shown that attitudes and norms towards living on sickness benefit vary geographically between different local cultures within the same formal national system (e.g. Frykman & Hansen 2005).

Figure 2.2 The DORA model. Source: Persson (2004) after Bryden & Hart (2004)



## The DORA Model

In considering the forces that drive development and performance a key question arises: are there development theories that can explain differential processes occurring at the regional and local levels? A key message here is the failure of traditional theories to explain observed differences in rural Europe and the need to take account of less tangible factors in the development process as well as the capacity of local actors and institutions to make use of them (Persson, 2004).

Traditional factors have received academic attention over a substantial period of time, especially from neoclassical economists and industrial location geographers. It is evident however that simplistic classical analyses no longer provide sufficient explanatory power to cover the complex behaviour of the modern economy. Intangible factors such as business culture, quality of life, 'community' or local 'culture' and institutional capacity are therefore also being introduced into explanations of local development processes. Due to the failure of traditional factors to capture the large amount of unexplained variation in local growth rates there has, according to Persson (2004), been a shift of attention to examine the role of 'less visible' socio-cultural factors in seeking additional or alternative explanations.

The difference in economic performance between different rural and insular areas can be explained by a combination of tangible and less tangible factors, and specifically by the ways in which they interact in specific local, region-

al and national contexts. A model that can be used to analyse this is the DORA-model<sup>1</sup>, see figure 2.2 (Bryden & Hart 2004). The factors described as important in the DORA model define different opportunities and constraints for local development and the effectiveness of local and regional systems, such as for example insular labour market systems.

The tangible factors represent the resources available to many areas and include the objective, formal measurable and well established characteristics of economic performance. The methods for measuring these factors are typically quantitative and based on statistical data. The less tangible factors refer to informal relations and activities and determine how well or badly the tangible resources are put to use in the area and are primarily based on qualitative material.

The DORA model focuses on the relationship between the tangible and less tangible factors that are at work in different local contexts and that create different development outcomes. To ensure that all of the aspects of each factor are covered in the analysis, the various factors can

<sup>1</sup>The model is named after the international research project 'Dynamics of Rural Areas', which was coordinated by John Bryden at The Arkleton Centre for Rural Development Research, University of Aberdeen. ([www.abdn.ac.uk/arkleton/doradocs/reports.shtml](http://www.abdn.ac.uk/arkleton/doradocs/reports.shtml))

Table 2.1 Tangible Factors

### Natural Resources

- *Availability of Natural Resources* examines the exploitable natural resources and their quality, includes an inventory of land and water
- *Resource Ownership Structure and Price* refers to land, forests, water, sea, beaches, minerals, renewable energy, landscape and bio-diversity
- *Environmental Legislation and Planning Restrictions* is concerned with policies on protected areas and preservation schemes

### Human Resources

- *Demography* ascertains the dynamics of demography through the evolution of population size, structure and migration trends
- *Labour Force Characteristics* examines the influence of insular structural characteristics and participation rates in terms of gender and age
- *Human Capital* studies the levels and importance of education, training and skills

### Infrastructure

- *Transport Infrastructure* investigates density and accessibility of rail, road, water and public transport infrastructure, interchange facilities and interregional connections; Limited accessibility is a key factor explaining both restricted performance and self-organizing of insular employment systems
- *Business-related Infrastructure* explores industrial/technology parks and business districts, telecommunications infrastructure, cost and proximity of energy, water and waste
- *Consumer-oriented Infrastructure* health, educational and cultural infrastructure are examined as well as facilities for shopping and recreation
- *Tourist Infrastructure* considers the volume of, facilities, and potential for tourism in the area, including promotion
- *Regional Policy* both national and transnational regional policies are examined with respect to the insular areas studied

### Investment

- *Past Investments* studies the causal relevance of geographical, sectoral and qualitative patterns of investments for competitiveness and self-employment
- *Capital Availability* investigates capital sourcing, accessibility of funds and the existence of advisory bodies
- *Costs of Capital* investigates regional policies in respect of the availability of government loans

### Economic Structures and Organisation

- *Structure and Evolution of Employment by Sectors* investigates sectoral employment changes in terms of the balance between tradition and innovation
- *Branches of Economic Activity, Diversification and Linkages* concerns the mix of branches, strength of linkages and embeddedness
- *Structural Characteristics and Evolution of Enterprises* considers the size, age and origin of enterprises and the degree of embeddedness in insular, national and international markets
- *Social Formation of Production* appraises the importance of historical changes in modes of production and ongoing adjustment to increasing competition and globalisation

Table 2.2 Less Tangible Factors

### Insular Market Performance

- *Market Performance* highlights the active and potentially subjective dimensions of what is otherwise covered in the set of tangible factors. It is concerned with market inefficiencies and the significance for access and use of key tangible variables
- *Labour Market Mobility* refers to labour market policies and regulations, wage structures and patterns of mobility, intra-insular as well as external, and sources of rigidity
- *Marketing of Natural Resource-based Assets* examines land use regulations and planning, access and supply rigidities and deals with commodification of resource-based assets, i.e. agro- and eco-tourism and quality labelled goods
- *Capital Supply to Enterprises* investigates the access of local enterprises to financial investment and the consequences for innovation and organisation
- *Distribution of Goods and Services* studies the dynamics of product markets, e.g. accessibility, cost and quality of transportation of goods and analyses exports and imports in relation to local production and markets

### Institutions

- *Institutions* deal with the less obvious aspects of public sector institutions, i.e. 'how they work in practice'
- *Institutional Autonomy* investigates the freedom of insular authorities and public agencies to act in the local economic interest, with reference to the rules governing this relationship and the way these are interpreted
- *Institutional Co-operation* concerns the way in which insular institutions work together for the common purpose of improving competitiveness, including the presence and functioning of partnerships
- *Institutional Responsiveness* examines insular access to policy agendas and processes and to what extent these are influenced by local concerns, thereby giving 'voice' to local actors

### Insular Networks

- *Networks* refer to informal relations between private sector corporations (businesses and NGOs) in civil society
- *Local Embeddedness* examines the significance of the extent to which entrepreneurs, owners and managers are embedded in insular social networks
- *Global Communications* considers the development effects of strong formal and informal communication links between insular entrepreneurs and the rest of the world
- *The Non-Contractual Element of Contracts* concerns the informal content of relations *initiated* through legally binding contracts within and beyond the locality
- *Information Technology and Innovation* assesses the role of IT, actual and potential, in networking and innovation across all sectors of the insular community

### Community

- *Community* is concerned with the shared associations and cultural resources of people, drawn on outside the formal structure of private and public sector institutions
- *Forms of Community and Identity* examines locally meaningful groupings, community organisations and cultural activities
- *Local Traditions and History* studies local traditions, their commodification as niche products or heritage and their influence on entrepreneurial initiative
- *Values, Beliefs and Attitudes* looks at insider and outsider stereotypes concerning local people specifically as they might bear on economic performance



### Quality of Life

- *Quality of life* refers to the subjective understandings of individuals. The variables considered here permit a re-assessment of the values in terms of which economic performance might be measured
  - *Living Standards* looks at perceptions of material well-being, public services
  - *Environment* considers natural and heritage amenities (new public goods) as personal assets, as well as the conservation and preservation of these assets
  - *Recreation* investigates cultural amenities and infrastructure, i.e. access, quality and variety of entertainment facilities and events
  - *Multiculturalism* concerns positive and negative perceptions of cultural diversity (the individual counterpart to the variable 'Forms of Community and Identity')
- 

be sub-divided into variables from which explanatory hypotheses are devised (Persson, 2004). In the case studies of insular labour markets presented in this volume, different aspects are focussed on in the different chapters. No case study looks into all of the factors of the DORA-model.

In the tables 2.1 and 2.2 a more detailed indication is given of the tangible and less tangible variables of the DORA model adapted to the insular contexts.

In the following sections some of the most important factors of the DORA-model are discussed in the context of insular labour markets. The factors mentioned in terms of theoretical concepts are seen to be of relevance in the case studies of this report, but are not of course the only ones necessary to understand the functioning and features of insular labour markets. The theories and concepts presented briefly below are *institutions, social capital, networks, human capital and entrepreneurship*.

## Institutions, Social Capital and Networks

The model of the *Transitional Labour Market System* highlights the importance of depicting the labour market system as a whole with a special focus on the transitions between different forms of income available for the individual in a given local context. To understand the mechanisms behind the transitions in the system it is necessary to consider the influence of both formal and informal institutions. The DORA-model provides a comprehensive picture of the various institutions important to an understanding of the issue of local development in insular areas. The so called less tangible factors, such as for example local traditions, values and beliefs are closely related to informal institutions and social capital.

The importance of both formal and informal institutions and social capital are frequently stressed in studies of local economic performance and regional development. The formal institutions affecting the labour market and income systems most in insular areas are for example generally seen to be governmental bodies, legislation and policy at the local, regional, national, and supra-national levels, as well as other organisations e.g. higher education institutions. Knudsen (2003, 14) stresses the importance of institutions in local economic development: "The importance of institutions thus becomes the role of promoting, framing and giving the various processes in operation their context. Regions exhibiting what has been described as 'institutional thickness' generally have an advantage over other regions".

Universities are an example of institutions that can be major players in regional development and can substantially add to an area's "institutional thickness". Their effect on the development of their respective regions has been

studied extensively and is generally found to be considerable. For example, in regions where a university-level education is offered there is a higher ratio of inhabitants who seek further education (e.g. Wikhall 2001).

In studies on what makes some areas more innovative than others, a number of important informal institutions can also be mentioned. Economic adaptation in a local area is, according to Knox et al. (2003), influenced by historical and social inheritance. Learning, adaptation and innovation are institutional, not simply because they are influenced by the institutions of society, but also because they produce local institutional features in terms of routinised norms, knowledge and behaviour. Trust between actors in the system makes learning more effective. Similarly, the tacit knowledge that is linked to the region in question is a result of history and specific experiences (Morgan, 1997; Vedsman, 1998).

The informal institutions significant in the context of insular labour markets are also closely related to the concept of social capital. Values, beliefs and traditions can be described as informal institutions connected to local cultures of institutionalised behaviour. The widely discussed concept of social capital is defined by Putnam (1993) as *features of social organisation, such as networks, norms and trust that facilitate co-ordination and co-operation for mutual benefit*. Essentially, social capital enhances the benefits of investment in physical and human capital and is created from the horizontal networks and relations between individuals, groups and organisations in civil society.

Social capital is a multi-faceted and complex concept like so many other promising hybrid concepts. Social capital has a rich potential, offering useful tools with which to

describe social reality and, to some extent at least, to explain certain structural mechanisms. There is an abundant literature on this topic and there are numerous researches applying the theoretical background to concrete situations. In the case of insular labour market case studies, it is important to focus on understanding what could potentially be the role of social capital and local networks in the well-functioning or malfunctioning of income systems.

Social networks are “the specific structures in which people as individuals and/or representatives of informal groups or formal organisations are inter-connected due to their common interests” (Aldea-Partanen, 2003, p.1). Members of the social networks share norms and through these networks they may gain access to social capital. In this way the networks become a resource.

Social networks are not uniform and in this context, Granovetter stresses the importance of *weak and strong ties*. “Weak ties provide people with access to information and resources beyond those available in their own social circle; but strong ties have greater motivation to be of assistance and are typically more easily available” (Granovetter, 1983, p.209). The importance of weak ties resides in their capacity to connect dense networks. Individuals with few weak

ties have less access to information through social networks and may be disadvantaged in relation to opportunities in the labour market. Good weak ties can provide information about job opportunities just at the right time. (Granovetter, 1983). Strong ties relate to more formal connections between e.g. different parts of the income system such as the job centre and the labour market.

Communication capability is important to the social networks and is affected by the types of ties existing within the network. The lack of weak ties isolates individuals because it reduces their access to other networks. In the case of the employment system, at the micro-level, access to information about new available jobs is crucial for access to, or better positioning, on the labour market. The absence of weak ties, the inability to communicate with potential employers at the right time, or delays precludes access to a job. At the macro-level, communication between the different components of the income system ensures a good use of the work force. For instance, co-ordination between the available educational and training opportunities and the types of companies and industries active in the region will ensure the better organisation of the flows within the income system.

## Human Capital

The level and quality of education, training and skills in the labour force are of significant importance for both regional development and for the functioning of the labour market system, not least in an insular labour market. Human capital is one of the less tangible factors which the DORA-model stipulates as being important for development.

Human capital and labour markets have in the main been connected to the migration of people from rural and peripheral areas to urban areas and centres of economic growth. According to the model, with the asset of high education, skills and qualification the migrant moved to seek better opportunities in terms of earnings and status in the urban centres. (Armstrong and Taylor, 2000) The term human capital has, however, developed a wider and more flexible usage than that used within the context of these strict models and theories. It has come to be more or less synonymous with the qualities of the work force or of the labour capital. Human capital is also increasingly stressed in theories of regional economic development and Florida (2002), for example, argues that there is a human capital theory of regional development which states that people are the driving force behind regional growth. According to this human capital theory, the key to regional growth is in the quality of people that are highly educated and productive. Furthermore, these key people tend to aggregate geo-

graphically and Florida argues that this clustering of people is more important than the clustering of firms. (pp. 220) On this issue Florida quotes Kotkin (2001):

‘Under the new regime of geography, wherever intelligence clusters evolve, in the small town or the big city, so too will wealth accumulate. Moreover, these clusters are far less constrained by traditional determinants such as strategic waterway location, the abundance of raw materials or the proximity to dense concentrations of populations.’

Hence, the concentration of highly skilled, educated and qualified people in the urban centres has become even more marked in economic development today with a focus on the knowledge economy and clusters. The rural and peripheral areas are the losers in this context. Young people in such areas have always had to move to be able to study. This can be a positive development if some of these migrants return to their home localities with new skills and qualifications as well as new experiences and other types of knowledge, particularly if they are able, with these newly acquired assets, to better contribute to the development of their home locality. Williams et al. (2004) stress however the need to cast our gaze much more widely than traditional human capital theory focussing on formal qualifications alone. There is a broader array of skills that includes interpersonal skills, cultural and language skills acquired

in the new spaces. To represent this 'wider human capital' they use a term borrowed from Li et al. (1996) – total human capital. Return migrants can therefore put both new formal qualifications and total human capital back into their home locality.

Atkin (2003) has investigated the views of rural youth in Britain on education. He stresses in the study that policies on educational attainment tend to treat all young people in the same manner, regardless of whether they live in urban or rural areas. Atkin argues that the nature of local

cultural capital is important to better understanding young people's value of education and therefore generic policies may not be the best tools in attempting to stimulate higher educational attainment. He suggests that his findings indicate that a long-term exposure to rurality has a significant influence on both identity and behaviour. According to his study, the value that youth in rural areas place on education in their lives varied significantly, and not all considered education to necessarily be 'a good thing' in its own right.

## Entrepreneurship

Entrepreneurship is often noted as being an important driving force in regional development. The impact of entrepreneurship on broader economic development however varies a great deal over time and between different types of economies (Henrekson 2003). The role and impact of entrepreneurship on the economic development of a region also depends on the prevailing phase of economic development. In times dominated by the gradual refinement and development of already established products and services, the impact of the large corporations grows, while new and small businesses play a greater role in times of economic restructuring.

The peripheral areas are generally seen as disadvantaged economies for which EU policies are needed to "counteract the effects of peripherality" (Davelaar, 1991, Adair et al., 1995) which are seen as the "hostile environments for new and small firms" (Anderson et al., 2001). However, a recent stream of literature argues that the concept of periphery as being synonymous with marginality and low development must be revised. Some authors recognise that various peripheral, non-metropolitan areas do offer favourable conditions to the start-up of new ventures. Van Horn & Harvey (1998) underline the fact that non-metropolitan areas can attract the attention of entrepreneurs due to the low cost of doing business and advances in telecommunications and transport systems. In metropolitan settings, the entrepreneur typically employs a network of professionals and has access to expertise that can easily be consulted to help remedy the problems facing the organization. In a peripheral location, entrepreneurs must develop a means to supplement the expertise assembled in the firm and in the local area, focusing on formal and informal networking and the exchange of experience.

Nijkamp (2003) argues that an urban environment with an abundance of formal and informal contacts may offer a protective shell for new ventures but, at the same time, it may also lead to a social trap that prevents real entrepreneurial creativeness. Florida (2000) argues that, within certain limits, the peripherality of regions may be

attractive, when they supply "talent" with a greater quality of life than that offered by overcrowded, congested and polluted metropolitan areas. Nature, health and educational facilities, security, local culture and access to leisure facilities also count in this respect.

Entrepreneurial features can be divided into three dimensions: personal characteristics, motivations, and behaviour. On the basis of a sampling from 10 rural peripheries, Kalantaridis (2004), clustered entrepreneurs according to different personal characteristics and motivations. One of the clusters was identified as being *opportunity-driven*, which was characterised by having predominantly male entrepreneurs, some of them born outside the studied area. Most had undergone a period of higher education and obtained university degrees. Interestingly, most had managerial expertise (knowledge and experience, qualifications, training) as well as previous experience of start-ups before moving to the study area, and most of their new ventures were in the same industry as they had worked previously.

Another type of entrepreneur is identified as being *necessity-driven*; he or she has access to only a limited number of other employment options. According to Kalantaridis (2004), the necessity-driven entrepreneurial cluster is mainly comprised of men, although some women are also found in this group. Two thirds of the entrepreneurs in the study were born locally. The entrepreneurs in the study did not have university qualifications and were all unemployed prior to the start-up. Furthermore, none of the necessity-driven entrepreneurs had any managerial expertise. These entrepreneurs in the main ran businesses in the distribution and consumer services field, or in the construction industry.

A third type of entrepreneurial motivation, identified as being quite common in peripheral areas, is that of the *'lifestyle'* motivation. These entrepreneurs are not necessarily inspired by economic motives and are not particularly alert to economic opportunities, however they are motivated to sustain (or improve) the way they have

chosen to organise their professional and private life as a whole. 'Lifestyle' entrepreneurs are sometimes considered to lessen the development conditions for more profit-oriented players at the market and to limit the opportunities for regional economic development. Ioannides & Petersen (2003) argue that at some point in their business life, usually in the face of growing competition, even lifestyle entrepreneurs have to innovate new products to be able to survive in the marketplace and thus remain in business.

## Conclusion

In this chapter a number of theoretical concepts and models have been presented that are seen as relevant in relation to the study of insular labour markets in the Nordic countries. The transitional labour market systems model functions as a framework where the income system is depicted as a dynamic process. The DORA model is to be seen as a conceptualisation and classification of important factors in the development of rural areas. Together, the two models can be used as tools for the analysis of the labour market situation and the development potentials of rural and peripheral areas.

The two models have served as a basic guide in respect of the case studies reported in this volume. Regarding the

In insular labour market systems, the starting of a business can be an option for earning an income when there is a distinct lack of other forms of employment. In the literature, the profit motive has often been regarded as the most important force behind entrepreneurship. However, in several investigations of the force behind entrepreneurship, the entrepreneurs themselves often express other more fundamental reasons such as self-fulfilment, etc. In many cases, entrepreneurship is promoted by the simple fact that unemployment would be the only alternative.

transitional labour market model, focus here is placed on the central box: the labour market. Most of the other boxes will be dealt with briefly to provide the context for the labour market and the transitions in each of the case studies. The paths between the labour market and the other boxes are also investigated, and here lies the key to identifying the facilitating factors or barriers providing for a smooth transition between different parts of the income system. Various factors relating to the DORA model appear in the case studies, and in particular, in their attempts to indicate and identify the facilitating factors and barriers to successful transitions.

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Figure 3.1 Map of Bornholm. Source: Adjusted originals from Regional Municipality of Bornholm.



# 3. Challenges to Income Systems on Bornholm

## Bornholm – in the Centre of the Baltic and the Outskirt of Denmark

Bornholm is located in the middle of the southern area of the Baltic Sea. In the Danish context, Bornholm is the most peripheral area of the country. In Denmark, *Bornholmere* (the inhabitants of Bornholm) are often called “Semi-Swedes”. This is due to the local dialect, which to Danish ears may sound like Swedish. Another element here is that Bornholm is situated in the Baltic Sea and is geographically closer to Sweden than to Denmark. *Bornholmere* are however very conscious of their national heritage. This is due, in the main, to a couple of historic incidents, where the history of Bornholm differs from Danish history in general.

Together with Skåne, Halland and Blekinge, Bornholm was conquered by Sweden in 1658. Less than a year later, Bornholm rebelled and thus became the only part of the conquered territories to succeed in defeating its Swedish attackers. Similarly, at the end of World War II the situation on Bornholm developed differently from that of the rest of Denmark. While mainland Denmark was liberated by the British Army, the Russian Army “liberated” Bornholm. As such, Bornholm was only really to become free again in the spring of 1946, when it was finally “re-united” with the Danish Kingdom.

These two historic incidents in some way perhaps contribute to the fact that *Bornholmere* retain a strong sense of national identity, while also retaining – like most other island communities – a strong local identity.

### Bornholm a Single Municipality in the Danish Capital Region

Until 2003, Bornholm was composed of 5 municipalities and Bornholm County (Amt). On January 1<sup>st</sup>, 2003, these units voluntarily and independently of the present reform of the municipal structure in Denmark amalgamated and became one administrative unit, Bornholm Regional Authority, which is unique in Denmark. However, as a result of the ongoing implementation of a nationwide municipal reform, the regional level of public administration in Bornholm will become a part of the new “Copenhagen region” from 2007.

Over the last decade or so, the institutional context of the neighbouring areas of Bornholm has also changed

considerably. The neighbouring and former socialist states have become open economies and EU members, while their infrastructure has improved greatly. Bornholm has also officially become a part of the transnational Danish-Swedish Øresund Region.

### Communications

The geographical distance to Sweden, Germany and Poland is shorter than that to the rest of Denmark, but because of the island’s nationality, the infrastructure network primarily connects Bornholm to the world through Denmark.

There are three transport services of importance to the Bornholm labour market:

1. The ferry service Rønne – Ystad, with a connection to train and bus services going to the city centre of Copenhagen. Door to door travel time is about 3 hours.
2. The night ferry service Rønne – Køge. Køge is situated 30 km south of Copenhagen. Travel time to Køge is about 6½ hours.
3. Airline service Rønne – Copenhagen Airport with 6 daily departures. Travel time from check-in to arrival at Copenhagen Airport is about 1 hour.

In the tourist season there are also ferry connections to the above-mentioned neighbouring countries to the South, though the frequency and capacity of such services are generally adjusted to the demands of the tourist industry. This increasing international orientation since the early 1990s undoubtedly reflects the fact that the authorities in Bornholm and the businesses community in particular, have come to focus on the potential of doing business with the former socialist states on the Baltic Sea. On the other hand, it has taken much longer for Bornholm to produce a strategy related to the Øresund region, of which Bornholm is officially now a part. Bornholm became much more integrated in this respect through the opening of the Øresund bridge in 2001 and by, almost at the same time, the commencement of the fast ferry service between Ystad in Sweden and Rønne on Bornholm. These two events reduced the travel time from Copenhagen via Sweden to Bornholm from 5½ hours to 3 hours.

Compared with other regions in this study, Bornholm has a high population density and is characterised by small distances. The area of Bornholm is 588 km<sup>2</sup>, with the longest distance from the south to the north of the island being about 45 kilometres. The network of roads is of a good standard. Wherever you find yourself on the island, all places can be reached by car within less than one hour. In other words, principally Bornholm has one coherent labour market.

### Fewer and Older – Population Change

In the last 25 years, the population figures of Bornholm have declined from 47,605 in 1979 to 43,347 individuals on January 1st, 2005. This is a reduction in the population of some 4,258, corresponding to almost 10% of the present population. According to forecasts produced by Statistics Denmark, this trend is expected to continue. (Statistics Denmark, 2004) It is estimated that the population of Bornholm will be about 41,400 in 2020. At the same time, the total population of Denmark is expected to increase. Unless a substantial change in this trend occurs, Bornholm will therefore continue to lose population.

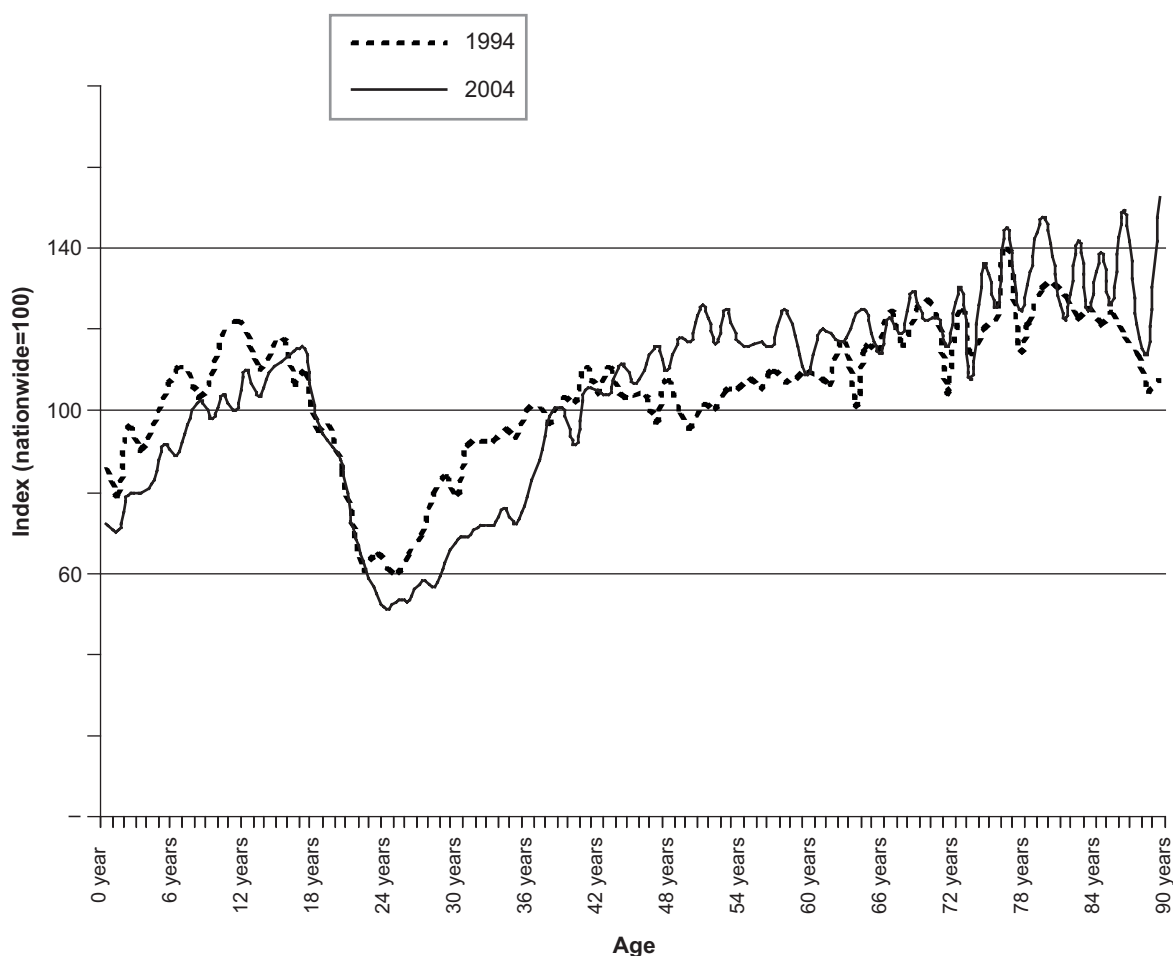
There are two essential explanatory factors for the declining population in Bornholm:

1. The age composition which is very important for the number of births
2. The balance between the number of people moving to, or leaving, Bornholm.

In insular regions there is very often a conjunction between the development in population trends and the state of the region's economic development, because the possibilities for commuting to and from the local labour market are strongly limited compared with labour markets close to economic centres. In such regions areas can have a strong economy based upon a solid business life but perhaps have a declining population, – or inversely, an economy primarily based on the attractive forces of the region. On islands with long transport distances the development in the population becomes a very critical factor and thus an indicator of the level of regional development.

Figure 3.2 indicates under- and over-represented age levels in the population of Bornholm in 1994 and 2004, compared with the Danish nationwide average. If an age level for instance has index 70 this means that the share of persons of this age level is 30% lower on Bornholm than in Denmark as a whole. If however, the index figure is 110 it indicates an over-representation by 10%.

Figure 3.2 Age composition in Bornholm compared to the national average. Source: (Statistics Denmark, 2004).





Basically figure 3.2 depicts a demographic situation common to peripheral regions. Young people leave the region to study or seek opportunities elsewhere. The age groups from 20 to 35 years were under-represented by 30–50% in 2004. For the age groups from about 40 years onwards however we see an over-representation on Bornholm, which in 2004 was about 20% for the age group up to 70 years. This ‘over-representation’ level reaches 40% for some single age groups older than 70 years.

Furthermore, in 2004 we can see an under-representation of children up to 8 years, which can primarily be explained by the under-representation of the *parent groups* with children from 0–9 years. This can basically be explained by parents in their thirties, and in their early forties moving to Bornholm with pre-teen and teenage children. This results in an overrepresentation of the 10–18 years age group. It is a general problem that the number of elderly people is increasing in Denmark, but Bornholm is the county in Denmark with the highest proportion of elderly in relation to the working population (CRT 2004).

If you compare 1994 with 2004 there are two coherent changes worth noticing. Firstly, the under-representation of the age groups between 20 and 55 years has become distinctively aggravated. One explanation for this is the general development in terms of higher education. More young people now undertake a course of higher education, and the young people of Bornholm follow the same pattern. After finishing their education it can be difficult to move back to the island, because there are few jobs available for highly qualified people.

With its 12,000 inhabitants, Rønne is the largest settlement on the island. In addition, Bornholm has a number of communities with between 1,000 and 4,000 inhabitants. Outside Rønne, only the parish of Svaneke has seen an increase in its population over the last 15 years. Population decline is at its most severe in the rural districts in the centre of the island and at its weakest in parishes close to the coast (Statistics Denmark, 2004). This development cannot however simply be characterised as urbanisation *per se*. Rather it relates more to a settlement pattern based on the recreational and cultural values of the areas concerned than to the possibilities for jobs in the neighbourhood. These preferences are also reflected in the motiva-

tions of incomers, typically from the Greater Copenhagen area. Such in-migrants are attracted by the relaxed and beautiful surroundings. The lack of good job opportunities is the most significant barrier to in-migrants coming to Bornholm. No less than 30% of people moving to Bornholm had a job in another part of Denmark when they moved. One year after the move 20% of these people still retained their old job (Ærø, 2004). In other words, certain areas on Bornholm are very attractive for settlement, but the very small labour market and the long distance to other labour markets creates a substantial barrier to further development.

### **Companies – Local Owned and International Orientation**

Fishing, agriculture and tourism are the industries usually mentioned when describing the business structure of Bornholm. The issues of declining employment, people leaving the island and unemployment are however raised when Bornholm’s socio-economic context is discussed. This is a description, which reflects reality, but at the same time it gives an impression of a society undergoing no development. If we delve a little deeper however we see that Bornholm is changing rapidly, with globalisation, and the emergence of the experience and knowledge economy in particular being the salient factors here.

The trade and industry sectors on Bornholm traditionally focus on either the international or the local market. As such, on Bornholm we rarely see examples of Bornholm-based businesses that are branches of larger Danish companies. On the other hand there are many examples of Bornholm businesses that have invested in or traded on the international markets. Bornholm is, of course, also influenced by the ongoing process of national and international mergers. The local slaughterhouse is owned by the Danish group, *Tulip*, while the co-operative chain, *Brugsen* has been taken over by *COOP Denmark*. Even today, Bornholm retains its locally owned co-operative dairy, whose primary product is ‘blue’ cheese for distribution on the world market. Manufacturing in the fisheries sector is controlled by a single Bornholm-owned international business. Moreover, the major businesses within the metallic industries and the fishing industry are locally owned with an international market focus.

# Structural Characteristics of the Bornholm Labour Market

## Declining Employment

The labour market on Bornholm is characterised by the geographical position of Bornholm, which means that commuting on a daily basis to a job outside the island is almost impossible. Fishing and agriculture with their connected manufacturing industries, the metal industry, and finally tourism together form the nucleus of the private sector. In all, this business structure means that employment on Bornholm is declining. Since the end of the 1980s, the fisheries sector in particular has seen falling quotas. As we have also seen in the rest of Denmark, the agricultural industry has had to implement a number of new structures that have led to increasingly more efficient, but significantly larger farms.

## Private and Public Sector

As a percentage of all workplaces on the island, the public sector's share is just below 40%. Viewed over a decade (1993–2003) the *share* of public workplaces has increased from 36.15 to 39.9%. To a large extent, the increase does not express an increase in the *number* of persons employed in the public sector but is rather an expression of employment decline in some of the other sectors of the community. Compared with Denmark in general, the public sector on Bornholm is relatively more important in terms of employment.

In May 2004, the municipality employed in total some 4,927 persons, of whom 76% were women (CRT 2004). In general, the public sector is characterised by a relatively high share of older employees. (CRT 2004)

As noted previously, Denmark is currently undergoing a structural reform of the municipal layer of government. This reform process will lead to changes in the division of responsibilities and work between the Bornholm Regional Authority, the new Capital Region, and the State. Thus far, the regional authority has carried the responsibilities for both county and municipal related functions. In future however, county related functions will be in the domain of the new Capital Region. It is expected then that these changes will lead to a decline in employment in the public sector on Bornholm (Bornholm Regional Authority, 2004).

## From Physical Manufacturing to Production of Experiences

The business structure in Bornholm is typical of that generally seen in peripheral areas where significant importance is given to agriculture and fishing and their derived industries. Employment in these sectors is however declining. At the same time, it is clear that the business sectors in Denmark, which have generally seen some progress in em-

ployment terms, such as financing, business services, and public and personal services, are not experiencing the same growth on Bornholm. Consequently total employment on Bornholm is declining. This is an important explanation for why Bornholm is characterized by high unemployment and declining population figures.

Such developments relates to a period of ongoing structural change, characterized by efficiency and rationalisation, declining fishing quotas, and of course also to some extent by business closures. Agriculture in particular is characterized by the impacts of such structural changes, where in their quest for efficiency gains, farms become ever larger due to merging and land acquisition. (CRT 2004)

In general it can be seen that new jobs are not being created on Bornholm at anything like the same rate that old ones are shed. This is due to the island's historical dependency on primary businesses with their derived and supplier industries. There is also a mismatch in terms of qualifications between the supply and demand of labour.

The larger Bornholm industry businesses expect that within a 5-year period they will be unlikely to need unskilled labour. At the same time, they indicate that they will need more labour with higher qualifications, and skilled employees with supplementary technological training. (CRT 2004) An investigation of the Bornholm food sector highlights the fact that at the same time as the number of jobs in the traditional food sector declines still further, a number of jobs have been created in smaller artisan food businesses. Their products are often more expensive but sold on a market of niche products. In addition, a number of businesses produce arts and crafts, design etc. (Hedetoft, 2004)

On the whole, such developments mean that the Bornholm labour market remains to a even higher degree, dependant on its ability to attract labour from outside the island, because the skills/qualifications demanded by the Bornholm labour market cannot be found locally. At the same time many of the work places for unskilled people on Bornholm are disappearing. This puts significant pressure on the education and training system in respect of the need to re-skill the present work force and in respect of Bornholm's ability to attract qualified labour.

## Labour Force Characteristics

### Employment in Bornholm

Denmark has been in the middle of an economic boom since 1994. This has led to an increase in employment and a distinct decline in unemployment. However, developments on Bornholm have not been as positive.

Figure 3.3 Employment trends in Bornholm and Denmark 1993–2002. Source: (Statistics Denmark, 2004).

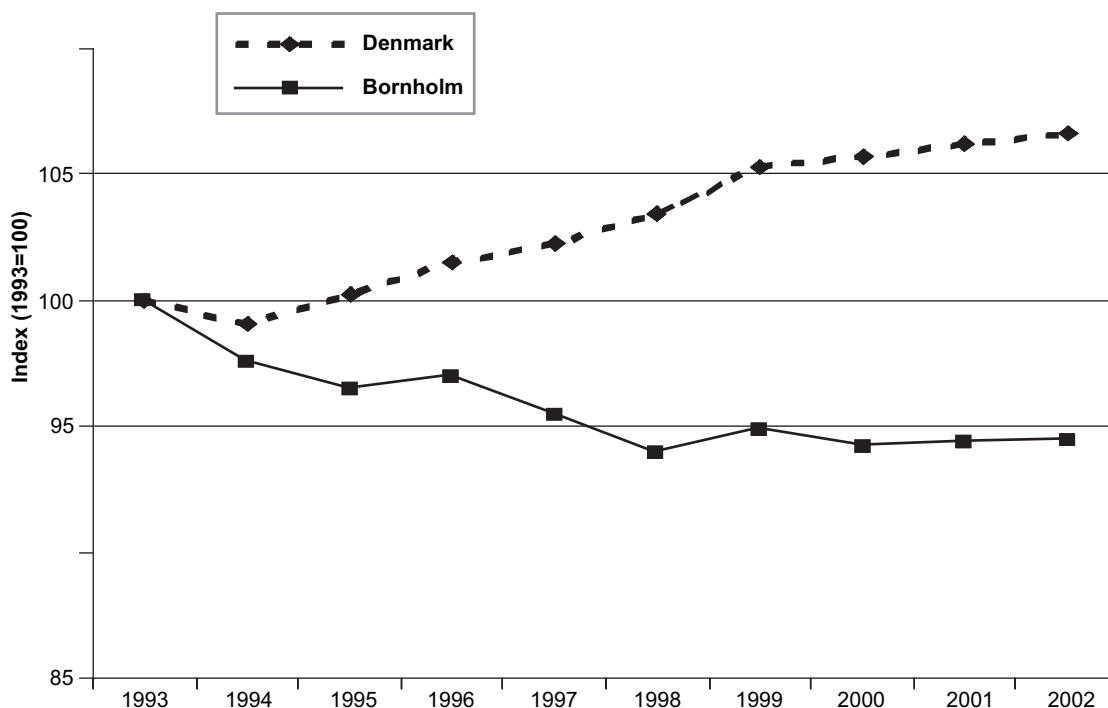


Figure 3.3 illustrates the development in employment on Bornholm and in all of Denmark since 1993. On Bornholm, employment has declined by almost 6% from 1993 to 1998. From 1998 to 2002 employment remained on the same level, so that in 2002 there were 20,340 employed persons compared with 21,546 in 1993. If Bornholm had seen the same development as the Danish average employment would have been at about 23,000 jobs or about 2,650 more than we actually see today.

#### Unemployment on Bornholm

The unemployment rate on Bornholm has declined from 14% in 1993 to about 10% in 2003. This equates to about 2,200 persons. The unemployment rate on Bornholm remains, on average, about 3–4 percentage points higher than the nationwide average. (Statistics Denmark, 2004)

According to the employment agency in Bornholm there is significant circulation on the labour market. For this reason, Bornholm has the lowest long-term unemployment in Denmark (Falkenstrøm Gitte, 2004). The employment agency sees this as a result of its own active labour market policy, where unemployed people receive training and activity offers after a short period of unemployment. Bornholm is characterised by large seasonal variations in the employment rate. This is partly due to the fact that employment in the tourism sector is generally confined to the three summer months and also because the fishing industry historically also had a strong seasonality. The workforce in these sectors is typically unskilled. The combination of seasonal unemployment and the activity offers from the employment agency mean that long-term

unemployment is limited in Bornholm. On the other hand, one can argue that there is a large group of individuals on Bornholm who are in part maintained through transfer payments and generally do not have a chance of gaining permanent full-time employment again. Those in the group of age 50+ are particularly vulnerable here.

#### Increasing Education Level

##### Export Young People from Bornholm

As in the rest of Europe, the level of education in Denmark is rapidly increasing. Young people on Bornholm follow the general pattern and increasingly undertake a period of higher education in their early adult lives. This means that the majority of young people have to leave Bornholm to study. Afterwards it is often impossible to find a job on Bornholm, as the demand for highly qualified people is limited.

Generally speaking, the labour market on Bornholm and the development of its population are characterised by:

1. A labour market which is almost closed and does not hold sectors with an employment growth that can counterbalance the falling employment in the traditional business sectors of Bornholm
2. An education market based on young people's choice of education that follows the general pattern of Denmark as a whole.

There are very few advanced educational institutions on Bornholm. Such opportunities are however offered by institutions in the rest of Denmark. In this light, it is very

difficult to attract students to Bornholm from the rest of Denmark or from further a field.

### *Social Inclusion and Exclusion – Marginal Groups*

The permanently high unemployment rate on Bornholm holds a serious risk for vulnerable segments on the labour market. There is a risk that these people end up in a situation of permanent unemployment, and that in the course of time they become socially excluded from the labour market. It is primarily unskilled jobs that will disappear, while the fishing and metal industries that currently employ the majority of unskilled staff, predict that these jobs will disappear within the next 5 years. (CRT 2004)

According to the employment agency, the marginalised groups are made up mainly of individuals with physical and/or learning disabilities, and young people with no education (Falkenstrøm, Gitte 2004)

### *Improved IT and Transport Infrastructure Reduce the Insularity*

Commuting on a daily basis to the rest of Denmark is almost out of the question. Flying costs are too high for those on a standard income, while the transportation time is too long for the other transport options. Theoretically, some commuting between Ystad and Bornholm should be possible. In the same way as for the Malmø/Copenhagen area. As such, EU labour market rules should be further liberalised to better cater for commuting across borders. On the other hand, free movement of labour within the Nordic countries has existed for 50 years, so it is uncertain whether EU legislation in this area would make any difference in relation to the cross-border interaction between Denmark and Sweden. The employment agencies in Bornholm and Ystad have been cooperating to integrate the two labour markets for some years. In practice no such integration has however taken place.

Weekly commuting is however a possibility and a number of people organise their working life in this fashion. There are about 1,000 out-commuters between Bornholm and the rest of Denmark. Some of these people are

soldiers, but the figure also covers those that have flexible working hours or those that are partly able to work from their own homes. The potential to work in this manner has undoubtedly been increased by the fast ferry service and the opening of the Øresund Bridge. At the same time, IT and the development and dissemination of the broadband technology are important factors here, which are now beginning to be of importance to the labour market on Bornholm. It is now possible to live in Bornholm and work in Copenhagen.

### *Quasi Market Solutions – Informal Income*

Bornholm is a small and closed society. This means that there is potential to enter into employment and commercial transactions, not regulated by market driven and transparent mechanisms. The business structure on Bornholm is among other things characterized by many small and family owned businesses, seasonal work, and tourism. These are circumstances that are likely to include some economic activities outside the tax system. Due to the nature of the case, there are no statistics or other public sources available that describe the 'black' or 'grey' economy on Bornholm. As such, the problem cannot be further elaborated here.

On the other hand, the employment agency on Bornholm argues that it is able only to provide a limited number of jobs, particularly when compared to other Danish regions or labour market areas (Falkenstrøm Gitte, 2004) According to the agency it is because jobs on Bornholm are, to a large degree, provided through social networks. A brief look at the local paper and its job advertisements section will confirm this. In proportion to the size of the labour market on Bornholm, very few vacancies are actually advertised publicly. This may indicate that the labour market is to a certain extent controlled by wider forces in the field of social relations rather than by demand and supply based upon formal qualifications in an open labour market. No data is however available to describe the relative importance of such quasi-market functions on Bornholm as compared with the rest of Denmark.

# Past and Present Policy Interventions: the Labour Market and Regional Development Programmes

In comparison with other Nordic countries, Denmark has few peripheral regions. Perhaps this is why there is no Danish tradition in terms of an 'active' regional policy. Responsibility for Danish regional policy is primarily shared between the Ministry of Economics and Business Affairs, the Ministry of Food, Agriculture and Fisheries, and the Ministry for the Interior and Health. The policy produced is primarily based on the regional and social fund programmes of the EU and general national arrangements, where the special conditions and preconditions of the peripheral areas are taken into consideration. In addition, municipal equalization arrangements also exist, which aim to sustain a homogeneous level of services across all Danish municipalities. In respect of rural districts it is primarily the programmes for these rural districts, worked out by the Ministries for Interior and Health and for Food, Agriculture and Fisheries, that are relevant, while the Objective 2 Programme is managed and coordinated by the National Agency for Enterprise and Construction. Danish regional policy is well managed and financed, while its contents are fundamentally based upon the regional policy of the EU.

Since the late 1980's Bornholm has been an objective area for EU funded programmes, but because of its particularly vulnerable economy, Bornholm has also been an objective for special initiatives from the Danish state.

## Regional and Rural Policy Programmes Implemented

With the adoption of fishing quota regulations the Bornholm economy was hit particularly hard. Nexø harbour was the most important fishing harbour in the Baltic Sea, and on Bornholm there were a large number of businesses within fish processing, service businesses for the fishing industry and also for the fishing fleet in the Baltic Sea. The consequences of the crisis therefore had a significant impact across the Bornholm economy, and resulted in the so-called 'Bornholm package', which was launched by the government in 1993. This package provided the Bornholm economy with DKK 145m. The package had two related objectives, one regarding immediate action and a second in relation to long term development (Lundtorp, 1999).

The immediate actions included programmes for and support to alternative sectors to substitute for the decline in fisheries, an injection of DKK 50m to a Bornholm business fund, and an easing in the legislation for investment funds and establishment accounts. The long-term initiative contained many elements, among others, competence and education initiatives, and the establishment of a social science based institution. Of these initiatives, three remain in operation ten years after their establishment; a glass and

ceramic school, the Centre for Regional and Tourism Research, and a teacher training programme offered by a Copenhagen educational establishment. Other initiatives, e.g. the offers of BSc and BCom degrees from Copenhagen Business School, have ceased to exist.

A later state funded support package included a government grant of DKK 55.9m in the period 2000–2006 ([www.digitalt.bornholm.dk](http://www.digitalt.bornholm.dk)). This wide-ranging IT project is locally initiated. It includes the implementation of an IT environment in the Bornholm businesses community, as well as research and development on Bornholm.

## EU-Policies

Bornholm has taken part in a number of EU programmes, primarily funded through the Social Fund, the Regional Fund, and The European Agricultural Guidance and Guarantee Fund. It is not possible to describe all these programmes here, though in general it can be argued that EU funding has contributed to strengthening areas of the Bornholm economy that have the potential for long term growth. This is particularly the case in relation to the wider tourism sector, including arts and crafts, and food production. Food production has succeeded in developing a *niche* sector based on artisan-based production and regional goods. An area that has not been as successful however is that of technology-focused programmes on Bornholm, while it has also proved to be difficult to develop the tertiary schooling sector or further education programmes.

EU programmes have contributed to a number of physical investments being made in plant and infrastructure. These investments have contributed to the creation of new jobs and activities. (Mikkelsen, 1997)

### *The Bornholmian Labour Market Policy Is Flexible<sup>1</sup>*

From a wider European perspective, Danish labour market policy is very flexible. Primarily because it is very easy to dismiss employees. This means that trade and industry can adapt comparatively quickly to changes in market trends through the hiring and firing of staff. For the employees, this is obviously a source of great insecurity.

Labour market policies in Denmark are the responsibility of the state through a number of labour market regions, each with their own labour market council and employment agencies. The employment agencies have three main responsibilities; to supply the labour market with a workforce, to combat unemployment and to secure individual rights on the labour market.

<sup>1</sup>This section is based on interview with Gitte Falkenstrøm AF Bornholm.

These tasks are carried out through e.g. the monitoring of the needs of employers. In Bornholm, the employment agency visits about 500 employers a year for this purpose. The employment agency also offers job placements for un-

employed people, while financial support is given to employers for covering some of the costs of taking on unemployed people, providing advice and training activities etc.

## Sustainable and Less Sustainable Income Systems

### Life Stories in Bornholm

This section is based on a number of life story interviews carried out in Bornholm. The aim of these interviews is to combine the individual experience related by the interviewees with that of the institutions and structures of the income system dealt with thus far. Through the interviews we are able to trace the factors that facilitate or hinder transitions within the income system. Such information is not available without focusing on individuals. The information gained through the interviews illustrates processes and indicates issues that are discussed against the backdrop of the models and concepts presented in chapter 2. Further information on the methodology of the biographical working life interviews can be found in chapter 1.

For this Bornholm case story, eight people were interviewed to discover their working life stories, five women and three men. Jointly the eight interviews cover all six categories of interviewees that we aimed for in the study. Four of the interviewees have started their own businesses. The interviewees represent different kinds of occupations and backgrounds and are grouped in the categories of our project.

### Lessons Learned from Biographical Working Life Stories

#### *The Overall Role of the Economic and Employment Situation*

It seems obvious that the overall economic situation and development trends in an area define the main facilitative hindering factors in respect of the potential of individuals on the local labour force to find employment. In economies like the one in Bornholm, marked by a decline in the traditional sectors, limited job creation within new service sectors, and high unemployment, the competition for the few attractive jobs is high. In this competition, certain segments of the labour force (primarily young and especially older people without or with only short education or outdated skills) face a high risk of marginalisation on the labour market through long-term unemployment or periods with highly insecure employment in short, shifting and low-paid jobs. Sometimes these sorts of temporary jobs do not give the employees the desired working hours to allow them to continue to receive full unemployment benefits as well as the other services offered by the unemployment

system. To varying degrees, half of the interviewees have experienced such marginalisation effects complicating their return to the labour market.

The ongoing transition from an agricultural and industrial economy to a service economy, however, not only causes unemployment among traditional low-skilled workers but also produces new types of high-quality job opportunities. One interviewee described the effect of his job shift from a store-man in car repair garages to a tourist guide at a nature experience centre this way:

”If I had not been enrolled in the tourist project I think I would have let myself become depressed and disillusioned. The tourist project has given me a lot. In my younger days, I never imagined becoming an instructor. It has built up my self-confidence to see that I actually was able to do something like this. In the beginning, it was difficult but I received a lot of support and constructive criticism from my colleagues. Being a tourist guide provides me with many contacts, much responsibility, and communications skills, and thereby adds to my self-confidence and well-being. I think that I have become a different more positive person. In my new job, people come to me because they need something from me – it is definitely not like in my old job as store-man. When people ask you something and you can give a good answer, you get tired in a good and satisfying way – it makes my mood better. My new job has also changed my attitude towards nature. It is a pity that I had to be this old before I found the right niche.”

For the unemployed however the present economic transition is certainly not as smooth and unproblematic a process as the above quote would suggest. As today's demands for skills are more directly related to personal, social qualifications than previously, the psychological consequences for the unemployed of not being offered a job are perhaps even worse than in the passed.

#### *The Role of Social Networks*

Social relations and networks play an important role, particularly in those segments of the labour market attracting the unskilled, the lower educated and those threatened by marginalisation. The interviews have provided many examples of people that have found a job via friends or relatives inside a firm or institution, and not through a formal recruitment processes. In the lower segments of the labour market, different types of temporary – public as well as

*Table 3.1 Socio-economic characteristics of the interviewees*

Category	Sex	Year of birth	Labour market status
Lower skilled with transition story	Female	1976	Paid apprenticeship
Lower skilled with transition story	Male	1946	Full time employed
Lower skilled with transition story	Female	1952	Self-employed
Key professional	Male	Ca. 1947	Head of a public authority
Born local	Female	1955	Part-time employed
Newcomer	Male	Ca. 1956–60	Self-employed
Newcomer	Female	1956	Self-employed
Newcomer	Female	1963	Self-employed

private – jobs are often filled through informal word-of-mouth mechanisms. For instance, institutions for elderly care and people with disabilities on Bornholm usually employ women social workers for temporary jobs from a “substitutes list” of former employees, of which the names are sometimes even exchanged among the different institutions. Another good example of the importance of social relations and informal mechanisms is expressed in the following quotation from an interviewee:

“One day my sister called me and told that the chairman of a local cultural institution wanted to offer me a summer-season job as a daily manager and that I could call him if I was interested. The story was that once, during a private visit to my sister, the son of the chairman had seen me helping her with some private accountancy tasks and so he suggested to his father that he employ me for the job. I called the chairman and got the job.”

### *The Role of Individual Features*

Besides the actual existence of available jobs, a crucial factor facilitating unemployed persons’ re-entrance to the labour market or the transition from one type of job to another seems to be the possession of certain individual characteristics. What is being alluded to here are not primarily specific professional skills or formal qualifications, but rather personality features like a “fighting spirit”, an ability to never give up, to maintain optimistic attitude in the face of adversity etc., as expressed by one of the interviewees:

“You’ve got to be pushy towards employers, otherwise nothing will happen. You must never take a refusal on a job application as a permanent refusal. Many people give up too easily, but it is understandable. I don’t think that everyone is able to cope with unemployment like I have done – in that case, there probably would not be so many unemployed. I believe that it is important to have drive, energy, and some oratorical gifts, but it shouldn’t be necessary to fight this much to get a job – it is not fair.”

Such mental “drive” at the individual level is obviously also very important (not to say a precondition) for people starting their own ventures. Without a special motivation and

a wish to take care of ones own situation, most persons will not even consider the possibility of engaging in entrepreneurial activities.

### *The Role of Labour Market Policies*

Another local contextual factor, in addition to the overall economic and employment situation, that can play an important facilitating or hindering role in terms of the potential for individuals to find their desired modes of earning an income or accomplishing successful transition from one sort of job to another, is the actual nature of the labour market policy. Particular stress here should be placed on its targeted efforts to fight unemployment. The interviewees provided several examples of the positive employment effects of educational activities and projects, organised by the local labour market authorities, or of financial or other support schemes offered to new venture starters. The local labour market authorities and educational institutions in particular seem to play an important role in relation to reducing the mismatch between the supply and demand of labour and in promoting the development of new growth sectors in the local economy by overseeing the education and training of new skilled labour.

However, the interviewees from Bornholm also seem to indicate that the institutional labour market system provides more useful services and offers more advantageous support for people at the top of the hierarchy of those unemployed (educated, motivated, self-dependent people) than to the long-term unemployed and marginalised sectors. This is to some degree an effect of a deliberate national policy element implemented in Danish labour market policy in the mid 1990s, the aim of which being to prevent long-term unemployment through strengthened efforts to activate and motivate the unemployed for job seeking in the first phase of their unemployment period.

Two interviewees relate cases where the local authorities apparently have not really helped them in finding solutions to their clearly insecure and un-wanted employment situations over a period of several years. One of these interviewees said:

“In my eight years of actively seeking a job, I have not received one single job offer from the Job Centre. It is too bad – it can’t be true that not one job has been free. Employers think too much about money, so the labour market on Bornholm is not flexible enough to accommodate people unable to have a normal full-time job. Besides, there are not enough jobs, so many simply have to move – like my sisters and brother and most of my school friends.”

### *The Role of Newcomers*

The sample of interviewees is perhaps biased in respect of an over-representation of newcomers that have moved to Bornholm from other parts of Denmark. Only three of the interviewees were born in Bornholm – the rest moved to Bornholm with their family as adults. Nonetheless, the interviews of newcomers indicate that this group of the population

holds important potential as entrepreneurs and contributors to economic development and change. Four of the interviewees who are newcomers have started their own businesses in Bornholm. These newcomers have in common the fact that they have some sort of professional education, and that a positive desire to improve the quality of their life influenced – if not directly caused – their relocation to Bornholm. One of these interviewees with a deep knowledge of the social structures and mechanisms of Bornholm noted:

“The born locals are marked by the old primary sector economy and are generally more stagnant and passive when it comes to taking initiatives. It is people coming from outside that take the initiatives, represent the new development and introduce new types of activities – they are the ones that change things and change the small communities where they live.”

## Conclusions

Finally, we will conclude on the above description of Bornholm by summing up some of the permissive factors as well as the obstacles to sustainable employment.

### **Natural and Infrastructural Conditions**

As an island in the Baltic Sea, Bornholm is geographically isolated from the rest of Denmark. Transport to and from the island is both expensive and time demanding and thus, for most people it is not possible to live on Bornholm and to maintain a job that demands a daily presence outside the island. Thus, the labour market in Bornholm can be characterised as a closed one with only very low levels of in and out commuting and with some mismatch between the supply and the demand of labour, which leads to unoccupied jobs and/or unemployment.

However, one can discuss the degree to which Bornholm is an “insular” labour market. Bornholm interacts with the Copenhagen labour market in particular, but this interaction implies job types that do not demand daily presence or an over-night stay outside Bornholm, as well as intensive use of IT and home working. The number of this type of job has increased in recent years and today this job category includes around 1000 persons living on Bornholm. The permissive factors that have encouraged this development have been improved transport connections, the development of broadband infrastructures and IT technologies, as well as the attraction of Bornholm for many people as a place to live due to the recreational and cultural assets of the island.

### **Economic Change and Labour Market Mismatch**

As with other local economies, the Bornholman is constantly subject to change and particularly in recent years,

this change has brought about something of a transformation. Many low-skill jobs in the traditional sectors have disappeared and have not been replaced by a similar number of jobs in new sectors. For this reason, among the Danish counties, Bornholm has the highest level of unemployment and a large reserve of labour with a low educational level and professional experience often exclusively from traditional primary or manufacturing sectors – qualifications and experiences that are no longer attractive to the labour market. Upgrading and training the competences of the unemployed, targeting the specific needs of local businesses or growth sectors, or the immigration of persons with the desired qualifications seem to be the only solutions to these problems.

The Danish labour market policy is characterised by a relatively high level of unemployment benefits in combination with very few restrictions on employers in terms of firing their employees. Whether or not it is the effects of this policy model, the Danish labour market is characterised by high mobility and fast adjustments to economic cycles, and for the Bornholman economy, characterised by sectors and businesses with seasonal swings in employment, the labour market policy model is an important framework condition.

The seasonal swings obviously cause unemployment periods for a relatively large part of the local labour force. However, by the effect of different kinds of labour market policy arrangements such as job training, job rotation, educational activities etc., very few of the unemployed are kept in long-term unemployment without any contact with the labour market.

On the other hand, the seasonal swings in the level of employment also create a group in the labour force that are



kept in situations where, year after year, during certain periods they depend upon unemployment benefits and, thus, are threatened by marginalisation. This group consists of the younger and older segments of the labour force, particularly those without vocational or further education.

As one of the interviewees mentioned, the training and educational activities organised by the local labour market authorities, can sometimes also help the unemployed in making a positive career shift to more attractive new types of jobs. Such effects of the local labour market policy, though successful, seem however to be highly dependent upon the presence of some kind of mental “drive” and motivation at the individual level. However, in labour markets as a Bornholmian with only a limited number of job openings available in the new sectors, it can certainly be difficult to find such motivation.

### Regional Policy Programmes

Regional policy on Bornholm is mainly carried out with the support of various forms of EU funding and support schemes. Without doubt, EU funds and support schemes have contributed to the creation of new jobs on Bornholm. In recent years, this has been the case primarily within the tourism industry and in the manufacturing of local quality food and beverage products.

On the other hand, the profile of national regional policy is far less evident. Over the last decade, the actual number of public sector jobs on Bornholm has fallen while the ongoing implementation of the new municipal reform is expected to further reduce this number. In Denmark, the tradition of establishing regional university colleges and other further educational institutions is not as strong as in other Nordic countries e.g. Sweden and Norway, and the Bornholmian *milieu* for further education is weak and institutionally and geographically scattered. This contrib-

utes still further to the only limited number of jobs for academics and others with further education as well as to the almost unidirectional migration of youngsters from Bornholm to other parts of the country. After graduating from secondary school, most Bornholmian youngster leave the island to attain a further education qualification, thus draining the local labour market of qualified young labour.

### Social Networks

Bornholm is a small community with tight social networks. These networks play a very important role in mediating information on new jobs among potentially interested candidates and in the employer’s recruitment of these people. Jobs are often mediated through personal contacts. For the business sector, these social networks are a useful source of knowledge on potential job applicants, enabling them to ensure that the right person is recruited. As such then, for the well-integrated part of the local labour force, such network relations constitute an important basis for employment and income.

The negative side of these social mechanisms, however, is that they can complicate the nature of labour market access for persons outside the dominant social networks. Such people include newcomers and persons who, with or without reasonable justification, have a bad professional reputation or fall outside the prevailing sets of social norms. Yet, from a *policy* point of view, to evade the effects of such negative, socially exclusive networking mechanisms would be extremely difficult without rigorous central state legislation that would not only prohibit the functioning of the positive aspects of the same social mechanisms but could also violate fundamental democratic principles of civic self-organisation.

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# 4. Challenges to Employment Systems in Akureyri and Eyjafjörður, Iceland<sup>I</sup>

Being employed is very important for the individual in Iceland and labour statistics show that activity rates are very high. “I have never had a job that I have not had to look for” said one of the interviewees in this case study, showing a great survival instinct and determination when faced with unemployment during a period of a structural change in the town Akureyri in the Eyjafjörður region. Eyjafjörður, which translates into English as Islands’ fjord, has long been an important agricultural region, though its character has changed over time. This chapter provides a glimpse of how the worker cited above, and others living in Akureyri or in the Eyjafjörður region, manage to find suitable jobs or other forms of income in the labour market in the ‘roller coaster ride’ that is today’s international economy. In this chapter, we touch upon various issues specific to this region, discussing these factors in relation to the models and concepts presented earlier.

## Geography of Eyjafjörður

The Eyjafjörður fjord is centrally located in the north of Iceland. The fjord itself is some 60 km long and the main valley to the south is an additional 60 km long. Mountains rising up to 1,536 metres surround the valley to the east and west. The size of the area is around 4,300 km<sup>2</sup>. The population density is however only 5.1 inhabitants per km<sup>2</sup> while the landscape is rather mountainous providing only a limited lowland area. The fjord also contains two small islands, Hrísey and Grímsey, both of which are inhabited, though the latter is considered to be outside the fjord’s labour market.

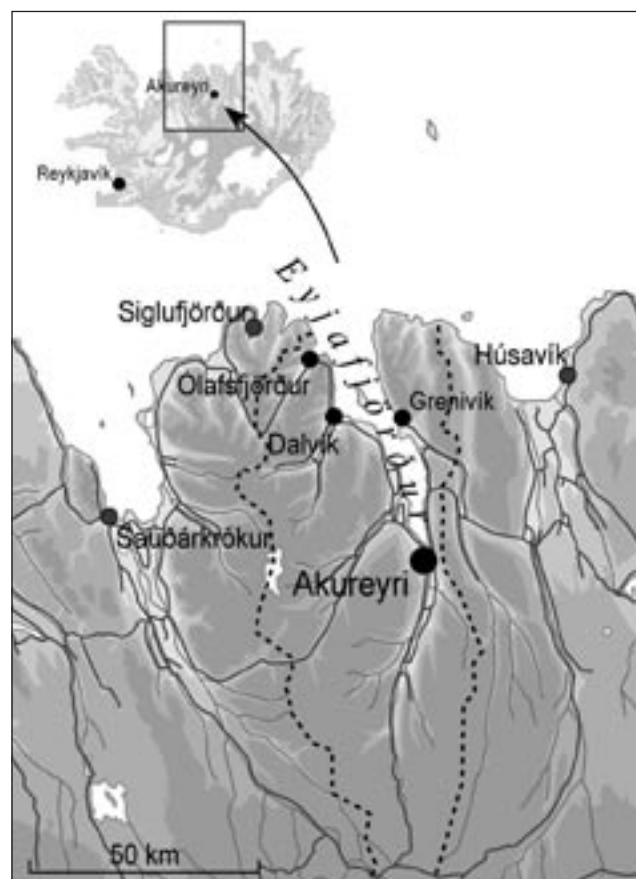
Akureyri assumes a central location in the region with the longest distance to it from within the region being just over 60 km. Eyjafjörður is viewed as a single employment market. This employment market is the most populous outside the capital area but can be termed insular due to topography and the distances involved to the adjacent labour markets in the east and west.

## Institutional Conditions

Currently, there are nine municipalities in the region, though ongoing talks between the municipalities on the question of amalgamation could eventually result in a

<sup>I</sup>This description is based on available statistics and other data, e.g. expert interviews specifically undertaken for the purposes of this research. This research was supported by a research grant from KEA-coop (Kaupfélag Eyfirðinga).

Figure 4.1 Eyjafjörður and central north Iceland.



smaller number of larger municipalities. In the region as a whole, there are three towns and four small villages. Apart from Ólafsfjörður they are all considered to be within daily commuting distance from Akureyri. The total population of the Eyjafjörður region is 21,792, of which 16,450 live in Akureyri.

## Communications

Road connections to the west (to the capital area) and to the east are via mountain passes of 540 and 325 metres respectively above sea level. During heavy snowstorms, these mountain roads are occasionally closed to traffic. The distance to the capital area is 389 km, usually taking around four and a half hours to travel in good conditions. The main Icelandic highway passes through Akureyri.

Domestic flight connections to and from Akureyri are relatively frequent. There are flights to Reykjavík with

50 seat airplanes a minimum of around five times a day<sup>2</sup> with an average travel time of 45 minutes. There are also flights available on smaller airplanes to Grímsey Island and to two villages in north-east Iceland, namely Þórhöfn and Vopnafjörður. Frequent flights to the capital area are important for individuals and various activities in the region, such as The University of Akureyri and various institutions and companies, e.g. for business meetings and the like.

The transportation network naturally has a very important role to play in shaping the future economic development of the region. Current developments in the area of sea-transportation seem however to be further increasing the insular character of the region. The general trend here is now that the shipping companies have stopped sailing between the various harbours in Iceland. Indeed, none of the harbours in the Eyjafjörður region are now used for import and export on a regular basis from Iceland. Instead, goods to and from the area are generally trucked to and from the capital area where most of the import and export business now takes place. This undoubtedly affects the location decisions of companies.

### **Demography – Population Dynamics and Migration**

In 2004, the Eyjafjörður region had 21,792 inhabitants, of which some 16,450 lived in Akureyri. The town's population growth has in general been close to the national average, though in recent years growth in Akureyri itself has been faster than the national average, while the population of the smaller municipalities in the region, especially those furthest from Akureyri, has gone into decline. This weak-

ening of the hinterland area should in many respects be seen as the 'Achilles' heel' of regional growth efforts, as – at least traditionally – the town functioned as a service centre for the region. As such, a more positive development strategy for the hinterland would undoubtedly strengthen the region as a whole.

The Eyjafjörður region experienced net out-migration during the 1994–2004 period. During the 1990s moreover, much of the traditional industrial base of the area collapsed at the same time as the capital region experienced a huge growth surge. Since 2000 however, the region has witnessed a much greater level of stability, even to the extent that net in-migration to the Eyjafjörður region has occurred.

Population pyramids for the region indicate a lack of young adults as is common with regions that have experienced net out-migration. However, this is clearly less pronounced in Akureyri than it is for the Eyjafjörður region as a whole.

### **Historical Overview, “Path Dependence”**

Eyjafjörður was traditionally an agricultural region while Akureyri evolved as its main market place and service centre in the 18th and 19th centuries. During the 20th century industries based on processing agricultural products developed. During the latter half of the 20th century, fisheries and fish processing became increasingly important. One of the town's most important functions is now the provision of higher education. Indeed, over the last twenty-five years this function has become increasingly important.

## **Structural Characteristics of the Local Labour Market**

### **Labour Market Characteristics**

#### *The Private and Public Sectors*

One of the main characteristics of Akureyri's economy used to be that it had only a few large employers. To some extent, this remains true even today. What has changed however is that employers in the private sector are generally smaller today or they are to a large degree subdivisions of larger companies often based in Reykjavík or in other places in close proximity to the capital area. Public sector employers, both at the state and at the municipality level are still few and relatively large, such as the regional hospital, the university, two secondary schools, and the local authority.

<sup>2</sup>This frequency level relates to the winter schedule. More frequent flights are available during the summer months.

Major changes in public sector employment patterns naturally stem from the arrival of the University of Akureyri in 1987. This is in fact the only large addition to the economy of the town in recent years, though it came at exactly the right moment when there was a recession in many privately run activities. Most of the new jobs that became available as a result of this change were however suitable only for those with higher education.

Kaupfélag Eyfirðinga used to have a key role in the town's economy and in fact in the economy of the region as a whole. Its operations were diverse, e.g. retail, dairy processing, meat processing, fisheries, transportation, repairs, and various small industries, in the food sector in particular but also in paint and chemicals. Since it became a holding company in 2001, most of its former activities have however been sold off, or shut down. As such, it actually now employs very few people. The company does

however retain a major role as an important investor in business across the region.

The Samband of Iceland, operated factories in Akureyri employing a considerable share of the workforce. In the early 1990s however, the Samband was forced to face up to severe financial troubles, and in 1995 a composition<sup>3</sup> was agreed upon by the Samband's creditors on the remainder of its debts. In 2005 the last company in Akureyri that had previously belonged to the manufacturing arm of the Samband was shut down, i.e. Iceland Skin Industries Ltd. The shipyard also went bankrupt and today it is only engaged in ship repairs.

The large fish processing plants still survive, even if one of them once became bankrupt but was subsequently re-established and the other has been sold to individuals based in the capital area. The former factory specialized in canning, and its major market area used to be the Eastern block.

In a way it had, in one interviewee's opinion, been more respectable to be employed with established employers than to establish (small) individual companies and compete on the market. Those who did establish their own business and succeeded were frowned upon. To leave the established companies for a job in a business like that was considered unwise and a sign that one was unreliable. Obviously, this interviewee draws strong conclusions but this gives an indication of the local attitudes and norms. The major change in attitudes towards work and the workplace has been that nowadays it is expected that one change jobs frequently.

### *The Division of the Labour Force between Different Industries*

The Eyjafjörður region is one of the few advantageous regions in the country in terms of employment in the fisheries sector. The region has managed to increase its fishing quota to a significant extent, especially through two Akureyri-based firms. One of them was sold to investors outside the region in 2004 while it remains to be seen to what extent this will have an impact on local jobs and the economy of the region.

### **Structural Change in the Industrial Sector**

The region has undergone dramatic structural change over the last twenty years. Therefore, when entire sectors are badly hit, as was the case in this area, fewer options are available to the surplus labour than those in regions closer to the capital area. Inhabitants, municipalities, and companies have however adapted to this change in different ways.

Manufacturing had been one of the major pillars of the

regional economy since the 1930s. Akureyri was generally termed *the* manufacturing town of Iceland. However, during the last quarter of the 20<sup>th</sup> century this manufacturing structure began to crumble. The largest and most symbolic event of this structural change was when companies owned by Samband of Iceland were sold or became bankrupt. According to the expert interviews undertaken, there were several reasons for this development. One was international development such as competition from low-cost areas. Another reason was the collapse of the Soviet Union and the closure of important markets for Icelandic products in Eastern Europe. Thirdly, the participation of Iceland in EFTA and later in the EEA after 1993 opened up the region to increased competition from other countries. In addition, several other explanations were also available relating in the main to internal developments within individual companies, e.g. the lack of investment in new machinery, marketing, and skills development. Finally, a major structural weakness remains the fact that the local market for production is small.

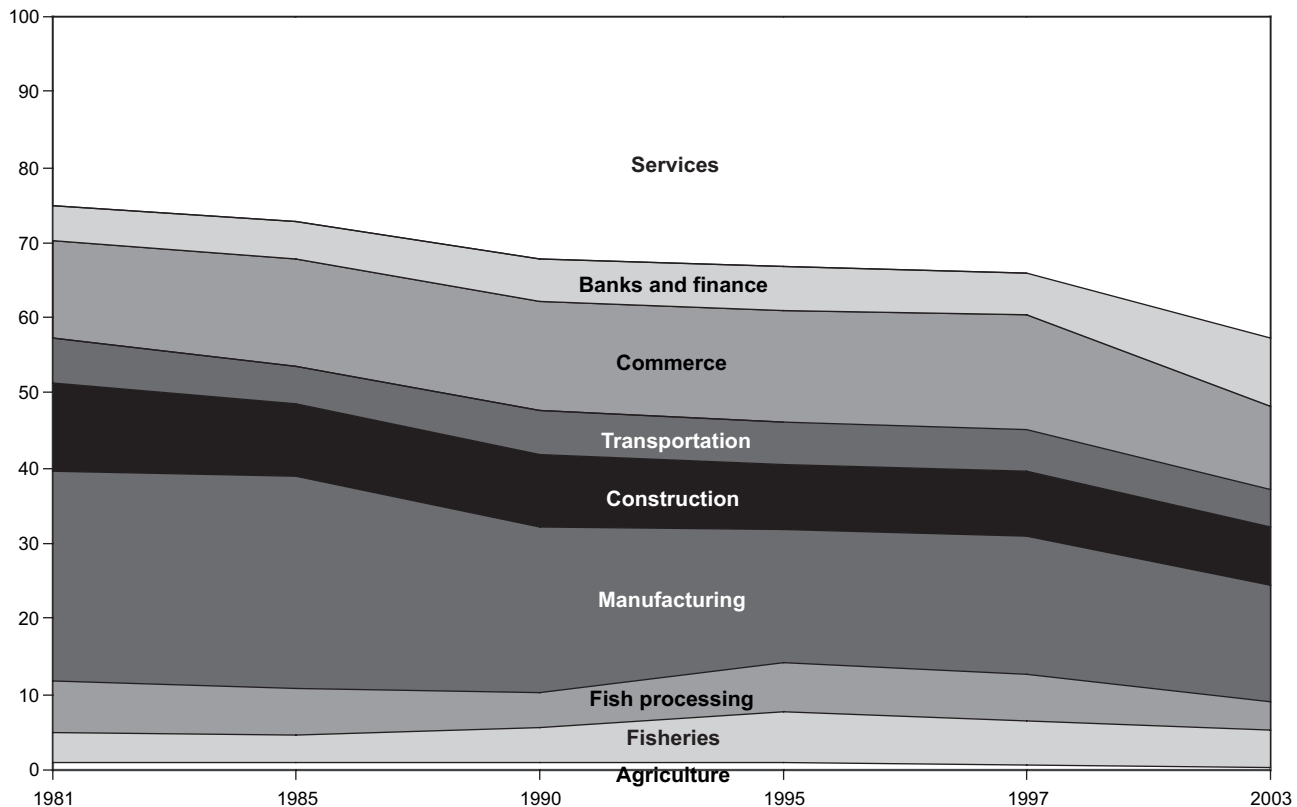
Figure 4.2 on next page shows the relative share of full-time employment equivalents between individual industries in the 1980s and 1990s. The general trend is a decrease in manufacturing and construction and an increase in the service sector. The data for 2003, while showing a similar trend is however somewhat different, being based on the actual number of employees. Data on full-time employment equivalents is only available until 1997. Part-time jobs appear to be more common in the service sector than e.g. in manufacturing and thus the growth in the service sector between 1997 and 2003 is exaggerated. Due to these differences in data, comparisons between 2003 and the earlier years should be undertaken with caution.

The downsizing of the manufacturing sector left many people unemployed, often with skills other than those suited for the newly emerging industries such as the higher education sector. There was then a mismatch between the demand and the supply of labour. One of the expert interviewees emphasized that the community had been strongly shaped by following this path for so long. According to the interviewee, it was generally accepted that one should stay with the same employer for most of one's working years. If one did change jobs, it was considered a sign of personal instability. In addition, in this atmosphere it was only considered acceptable for a few local companies to make money and to expand, such as the cooperative. If new individuals or companies set up in business, it was generally frowned upon. In general, the economy had thus not been open for innovators nor had the workforce been flexible. During the turmoil of the 1990s this had, according to the interviewee however, changed dramatically.

Among the positive changes in the Eyjafjörður region's economy, two examples from different sectors can be mentioned.

<sup>3</sup>Composition is a settlement whereby creditors agree to accept partial payment of debts by a bankrupt party, typically in return for a consideration such as immediate payment of a lesser amount.

Figure 4.2 Akureyri, division of the workforce between different industries, based on the number of man-years, except 2003, where the number of employed persons is used. Source: Byggingastofnun and Statistics Iceland.



- The University of Akureyri was established in 1987. In the fall of that year, permanent staff consisted of only 4 persons and a total of 50 students were enrolled (Jóhannesson and Jónsson, 1993). The growth of the University has however been very swift, and today around 1,470 students are enrolled, while permanent staff number 177 (Háskólinn á Akureyri, 2005).
- The fishing company Samherji is another example of a company that has grown rapidly. When bought to Akureyri in 1983 the company consisted of a single trawler. Today the company has operations in various locations in Iceland besides being a multinational corporation with operations in Norway, The Faeroes, Scotland, England and Germany. Its fishing fleet in Iceland consists of 9 ships and 706 'full-time equivalent' people were employed in 2003<sup>4</sup> (Samherji, 2004). Its size in terms of foreign activity (in 2003) was comparable to that of its domestic activity. In terms of wages, this company has a considerable economic weight as many of its jobs are well paid, e.g. crew members.

<sup>4</sup>Of which, employees in the Eyjafjörður region number around 283, and ship crew members some 293, most of whom live in Akureyri.

## Labour Force Characteristics

### Employment

One of the major characteristics of the Icelandic labour market is the high activity rates of the labour force. In 2002, the activity rate was 82.2% for the age group 16–74 years old. The labour market consisted of about 162,000 persons in 2002. For men the activity rate was higher, at 87.3% than for women, which was 78.2%.

The most notable change in recent years is the rising activity rate among women followed by the declining activity rate in the age group 64–74 years old. Another distinctive feature of the Icelandic labour market is the large number of people holding more than one job simultaneously. In 2002, 17.2% of employed people held two or more jobs. This is slightly more common in regions outside the capital area.

### Seasonal Jobs

Seasonal changes in the labour market are becoming less pronounced according to the expert interviewees consulted for the purposes of this project, and there are indications that the general trend has been that labour is becoming less mobile. In the case of families, instead of one of the parents, usually the father, taking a seasonal or temporary job in another region, the family may opt instead to migrate. An indication of this is construction work on hydro-

power projects. In a large ongoing project in Eastern Iceland, it has proven more difficult to recruit Icelandic workers than in previous similar projects. However, this may also be due to the fact that the location of the project is somewhat removed from the most populous regions of the country.

### *Unemployment*

The unemployment<sup>5</sup> level in Iceland was 2.6% in 2004. In North East Iceland, the area to which our study area belongs<sup>6</sup>, the unemployment rate was 2.8%, the second highest in the country. In the North East region the unemployment rate among women was 3.9%, which was the highest of all regions in 2004. The average number of unemployed persons in the Eyjafjörður region in 2004 was 364–155 men and 209 women. Unemployment among women has been higher than that among men over the last few years, and this difference has been increasing. There are greater seasonal differences in unemployment in the North East region than in the country as a whole. Furthermore, there are greater seasonal differences among men than women. There is considerable seasonal unemployment in the Eyjafjörður region, or 1.6–3.1 times more, during the past few years, in mid winter than in the fall, when it is generally lowest. (Directorate of Labour)

### *Education Level*

The education level of the labour force in the Eyjafjörður region in 2001 was considerably lower than that of the country in general. This difference was especially pronounced among women, since 4 out of 10 had only obtained a primary-level education. This is twice as high a share as the national average. (Statistics Iceland, 2002) This situation could be related to the structure of the local economy where the emphasis used to be on industries where there was little demand for highly qualified labour. Furthermore, many of these industries were dependent on a predominantly female-based workforce, such as the textile industry, fish processing, canning, and other food industry concerns.

In recent years however there has been a huge increase in the supply of education in Icelandic society. Furthermore, there has been a significant increase in the availability of courses for the unemployed, provided by, and with the intervention of, local employment agencies. Some companies have increased offers to their staff for training courses in cooperation with various education bodies, both public and private.

<sup>5</sup>This is so called registered unemployment, which is relatively lower than that measured by the labour surveys of Statistics Iceland. There, the unemployed are classified as those who are not employed in any work but are looking for a job and are ready to work within two weeks.

<sup>6</sup>The population of our study area is 81% of the Northeast region, though the unemployment ratio is not issued for individual municipalities.

The number of enrolled students in North East Iceland more than doubled between 1997 and 2003. This is undoubtedly one of the major changes to have taken place in the region, and it is, in the main, a reflection of the developments at the University of Akureyri.

Expert interviews shed light on the interplay between the opening of the University and the performance of the local economy. The University has strengthened the local economy to a significant extent, however this is a mutual process. One of the major concerns here is that the local economy is not large enough to be able to absorb the university graduates. Furthermore, recent changes in the local economy characterised by the fact that various local activities have been sold or shut down and replaced by subsidiaries of large companies in the capital area, are believed to further exemplify the magnitude of this problem, as management and other various office functions are relocated to the capital area.

### *Parental Leave*

In 2000, the regulations concerning parental leave changed considerably. Prior to this, mothers were entitled to 6 months leave and fathers to two weeks. The new regulations entitle mothers and fathers each to three months leave, in addition to a further three months between the parents. The payment of full wages at the rate received prior to the period of leave is also guaranteed.

### *Sick Leave*

The rights to sick leave to a certain extent depends upon which labour union the individual is a member. However, every worker is entitled to a minimum level of security, which is 3 months regular salary at the rate paid before the sickness/accident occurred. In the case of sick children, each parent is entitled to seven days leave from work on full salary.

### *Pension*

The right to a pension very much depends upon which labour union and pension fund an individual worker belongs to. Every individual has the right to a certain minimum pension from the state at age 67. The income of this group varies greatly since the pension funds of the labour unions are not equally strong. Other options are becoming more common such as payments to additional pension funds and private pensions.

### *Disability Pensions*

The number of persons receiving disability pensions rose significantly between 1996 and 2002. This is probably due in part to the introduction of a new method of disability evaluation in 1999, and to increasing pressure from the labour market, with a rise in unemployment and increased competition. There are also marked regional differences in the take-up of disability pension. Disability has, according

to a recent study become most common in three communities in North Iceland; i.e. Akureyri, Ólafsfjörður, and Siglufjörður, with the two former communities being located in the case study area (Thorlaciús & Stefánsson, 2004). Research has shown that between 1992 and 2003 there was a strong correlation between the incidence of disability and the rate of unemployment (Thorlaciús, Stefánsson, and Ólafsson, 2004). A significant relationship between the introduction of a new method of disability evaluation in 1999 and the incidence of disability has however not been found (Thorlaciús & Stefánsson, 2004).

Among those who have a weak position on the labour market significant incentives exist to attempt to secure a disability pension, as beneficiaries are better off than those receiving unemployment benefits or those on minimum wages. There is little incentive moreover to give up a disability pension unless a well-paid job becomes available (Herbertsson, 2005).

### *Social Inclusion and Exclusion, Marginal Groups*

Holding a job is very much a part of an individuals' self-image, and there is a certain risk to becoming marginalized for those not holding a job. A study of the occurrence of poverty in Iceland found that in 1997–1998, some 7% of the nation lived below poverty levels. The occurrence of poverty had increased during the period 1992–1997/8 and it is suggested that the reasons were related to increased unemployment during the period (Ólafsson, 1999).

In a local context, according to expert interviews undertaken, the unemployed young people in the 16–24 age group are perhaps the social group that faces the biggest problems. Presently, this group constitutes just short of 30% of those registered as unemployed in the region. This applies in particular to those who had only finished primary school. There has been a huge increase in those unemployed among this group. Mothers between 30–39 years of age are another group that face problems, as after having children there is a risk that they then simply drop out of the labour market according to an expert interview. In some cases, paying for day-care can prove more expensive than the net wages gained from a low-income job. A sizeable share of the labour market seems however to have moved into the group receiving disability pensions, and has thus in a way become marginalized in the process.

### *Gender Issues*

The gender balance in the region as a whole is relatively even. However, in rural locations and fishing villages, the share of men is disproportionately high at up to 54.8% of

the total. In Akureyri, women predominate as is often the case in urban locations.

Data on labour force participation by age shows that older women in the labour force across the region tend to be disproportionately fewer than the national average. It is likely that the structural change of the region's economy has hit this group harder than other parts of the population.

### *Commuting*

There are indications that commuting has increased considerably, especially around the capital area and to a smaller degree around other towns. Between 33% and 73% of workers in small municipalities within 30 minutes travelling distance of Akureyri commute to work. This clearly illustrates the importance of the town as a regional centre (Rannsóknastofnun Háskólans á Akureyri, 2004). In Iceland, there are no tax deductions for those who commute, making commuting a less desirable option, particularly for those with lower wages and in cases where the employer does not pay this cost. This issue was brought up repeatedly in life-story interviews.

### *Quasi-Market Solutions – Informal Income*

Data on quasi-market solutions is limited, however expert and life-story interviews shed a light on this issue. One indication of change is that there is less of a propensity to hire teachers without a formal education and this is probably due to a rise in the number of qualified teachers and more demand for those jobs. In the small communities in the case study area a good deal of vacant jobs are however, according to our interviewees, still offered without a formal advertisement. Public sector jobs must, by law, be advertised however.

According to an expert interviewee, companies in the area used to have more of a social function in respect of their staff, particularly in terms of keeping them employed. However, some companies were not equipped to handle this task financially. In a sense then this could be considered a quasi-market situation. When the market situation changed, some of these older firms went out of business and a more profit-driven attitude emerged.

A national committee on tax fraud, tax evasion and black market activity has estimated that this caused the state and the municipalities an income loss of between 8.5 and 11.5%. Older reports estimated the black market to be around 4.5–6% of domestic production in Iceland. It is possible that there has been an increase in the size of the black market economy in the country as a whole, though no regional estimates are available. (Alþingi, 2004)



# Past and Present Policy Intervention, Labour Market and Regional Development Programmes

## Regional and Rural Policy Programmes Implemented

A change of course took place in the government's regional policy in 1991. Very simply, this change can best be illustrated with reference to the fact that regional development efforts and assistance had, prior to this point, primarily been aimed at specific companies, specific municipalities or regions in distress. With the emergence of a new government in 1991, a change in policy took place (Ríkisstjórn Sjálfstæðisflokks og Alþýðuflokks, 1991). The same general policy should now apply to all regions with more emphasis on market solutions with the government also planning to support certain growth regions. The first regional programme for the whole country was issued in 1994 with an emphasis on growth regions and without specifying particular regions. However, in the third programme in 2002 it became clear that an emphasis would have to be put on the Eyjafjörður region as the most populous region outside the capital area<sup>7</sup>.

In 2002, the Icelandic parliament agreed on a resolution on regional development in Iceland for the period 2002–2005. With reference to the Eyjafjörður region, one of the five objectives of the resolution was to increase the standard of living outside the capital area by strengthening the regions that are most attractive to people and that have the best opportunities to support viable economic, educational, cultural and other public services. One of the 22 specific projects of this programme was centred on the need to design a specific regional plan for the Eyjafjörður region, which was considered to best fit these criteria.

The main emphasis of the Eyjafjörður regional plan was placed on the ideas of clustering. Four clusters were included; education and research; health services, tourism and food production. In addition, a growth agreement between the state and various parties in the region for 2004–2007 is also in place. Its main purpose is to strengthen the region as a desirable place in which to live. Emphasis here is on strengthening the competitiveness of the economy and the region as well as increasing sustainable growth and thus the number of available jobs and inhabitants.

## Labour Market Policy

Here we can divide the labour market policy into two main categories. On the one hand services to the unemployed and on the other services to innovators, entrepreneurs, and others who run, or intend to run, their own businesses.

<sup>7</sup>The East region and the Westfjords were also treated as growth regions.

## Unemployment Services

The main findings of a recent piece of research were that, “local presence, local knowledge and local self-determination seemed to be highly influential factors for the success of labour market services in peripheral communities” (Aradóttir et al, 2004, 101). The institutional framework of North-East Iceland did not score high on these factors. Even if there are local offices that to a different degree have the task of providing services to the unemployed, they do not seem to be regarded as active players in the local environment. The major characteristic of this institutional framework seems to be that of concentration in Akureyri (Aradóttir et al, 2004).

According to our expert interviewees, the system has changed considerably since 1998. Among the changes is the fact that the unemployed now receive more counselling and more courses are being offered. Job-seeking is also more active; each unemployed individual in cooperation with a counsellor now prepares a job-seeking schedule.

## Unemployment Benefits

The Icelandic unemployment system is under the authority of the Ministry of Social Affairs. The system is financed through a special tax on employers. To qualify for these benefits, the applicant has to be unemployed, actively seeking a job, be employable and able to fulfil a number of other criteria. There are employment agencies operating in each region of Iceland, including an office in Akureyri.

The unemployment insurance fund can, according to certain rules, provide grants to special projects under the control of the employment agencies. These projects and jobs can include temporary projects exceeding the regular activity of municipalities and the state, projects for students and people with an impaired ability to work, and grants to unemployed persons to establish their own business.

## “Sudden” Unemployment in the Early 1990’s

When unemployment levels of an unprecedented scale hit the region in 1993–1994 in the wake of the bankruptcy of several established companies, the local community was wholly unprepared. The unemployment rate in Akureyri was 5.8% in mid 1993, while in other sectors e.g. textile manufacturing and construction, the situation was even worse. Measures were however taken to address the problem in several ways with the municipal authorities to the fore.

At the beginning of 1994, the town council decided to open a workshop – Punkturinn – in a recently closed shoe factory where the unemployed could work on their

hobbies, develop personal skills and socialize. Temporary, special jobs were also offered to the unemployed; some of these jobs later became permanent. (Morgunblaðið 1993b). The workshop is still open today, but with a more general function; employed and unemployed people alike attend the place and it is primarily considered a recreational facility where old expertise in handicrafts can be preserved and people can develop personal skills ([www.punkturinn.akureyri.is](http://www.punkturinn.akureyri.is)).

### *Assistance to Companies and Start-ups*

There are various actors in the business support system. Municipalities in Iceland often run their own business or promotion agencies. The Akureyri Region Business Agency is one of these institutes ([www.afe.is](http://www.afe.is)). It is owned and operated jointly by most of the municipalities in Eyjafjörður region and partly financed through the Icelandic Institute for Regional Development. The overall role of the agency is to increase the area's competitiveness, quality of life, and overall attractiveness, as a place in which to live and to invest. Furthermore, the office assists local companies in discovering and analyzing new markets and opportunities. Finally, it acts as a link between supporting governmental institutions and local companies. According to the managing director of the Akureyri Region Business Agency, the role of the company has however changed from being a reactive and defensive support for businesses in trouble to a proactive supporter promoting the area to investors in targeted industries.

In the case of individuals with a business idea and the desire to start-up a new firm they are advised on how to seek business support e.g. by the *Impra* Innovation Centre, a centre for information and assistance for entrepreneurs and small businesses. ([www.impra.is](http://www.impra.is))

The Icelandic Institute for Regional Development (*Byggðastofnun*) has among other things the task of providing grants or low-interest loans for companies and individuals running companies in regions outside the capital region.

Tourism currently has its own support agency in northern Iceland, located in Akureyri. The office was established in 2003. The main driving force behind the establishment of the office was the discussion on the lack of solidarity within the field and the necessity of massive marketing and sales efforts by local actors. (*Markaðsskrifstofa Ferðamála á Norðurlandi*, 2004)

The municipality of Akureyri has certain rules that apply in respect of support to entrepreneurs and companies ([www.akureyri.is](http://www.akureyri.is)). Their purpose is to offer those who want to establish new business in Akureyri temporary support for the maximum duration of three years. This applies to property taxes, and electricity and water costs. The municipality places most emphasis on sectors that mesh with the municipality's policy towards local economic development:

- Innovation and new jobs in fisheries, industry, and agriculture.
- Innovation and new jobs in high technology and IT-industries.
- Cooperation projects between the University of Akureyri and the private sector.

There was operated an incubation centre in Akureyri with outposts in Dalvík and Húsavík since early 2001. There has not however been much continuity in the operation e.g. frequent change of management. ([www.fn.is](http://www.fn.is))

The local investment fund, *Tækifæri*, was established, and is owned by the municipalities and companies of the region. Its purpose is to see a return on interest by investing in innovation and the creation of job opportunities in northern Iceland (Jóhannesson, 2002).

In October 2004 the research and innovation building *Borgir* was erected on the campus of the University of Akureyri, where several institutions e.g. in the business support system are located. This may increase their cooperation and make their access to potential clients better. ([www.simnet.is/issborgir](http://www.simnet.is/issborgir))

Recent research on innovation systems in the periphery has found that there seems to be a lack of transparency in terms of national cross-sectoral policy. Limited awareness and familiarity with different policy initiatives exists, particularly among firm representatives but also among the various representatives of the different support organizations. (Aradóttir et al. 2005) These findings are further supported in this study. The institutional system in the business support system changes frequently and has to be considered rather fragmented with many service providers whose role is not always clearly identified by, nor easily comprehensible to, prospective clients. In spite of the relatively comprehensive support system, this is an obvious drawback.

### *Relocation of State Workplaces*

There has been a significant level of debate on the relocation of public sector workplaces in Iceland for at least 30 years. The concentration of government jobs is disproportionately high in the capital region. Indeed, a number of institutions have moved to Akureyri in recent years, e.g. the Office for Wildlife Management and the Centre for Gender Equality. In addition, other institutions have moved parts of their operations and run sub-divisions in the region. Furthermore, several small institutions or sub-division in Akureyri have been established. The largest share of these types of actors is located in the *Borgir* research and innovation building on the campus of the University of Akureyri. The most important addition to government jobs in the region is however the University of Akureyri.

### **Top-Down versus Bottom-Up Process**

Top-down processes or policies have been more common in the Icelandic context than those that can be termed bot-

tom-up, with the state-based initiatives in attracting foreign investment e.g. in manufacturing being but one example of this. Importance has long been placed on trying to attract foreign investment into the area. Since the mid 1960's, there have been numerous discussions on the possible establishment of an aluminium smelter in Eyjafjörður. In 1991, when perhaps the most serious talks to date were already underway, it became clear that these plans would not come to fruition. In a way, the emphasis on a large factory, a single solution, would have been in line with the previous development and characteristics of the region and its economy. Increased diversification and a certain emphasis on further education and research have however taken place. In the past few years however further discussion of the aluminium smelter or a smaller factory have taken place. It is apparent from what many of the expert interviewees have said that a relatively large workplace is considered desirable and it would be a welcome addition to the local labour market.

#### *The Role of the Municipality in the Local Economy*

The role of the municipalities as regards the local economy has changed considerably in recent years. Instead of being

involved in the economy and even owning individual companies, the general role of the municipalities has changed into that of being a facilitator. Municipalities are generally expected to provide the necessary infrastructure and in general to create a suitable environment for companies to operate in. To a significant extent then, and in line with this general process, the role of the municipality of Akureyri has changed dramatically in the past decade or so.

#### **Evaluation of Policy**

Little in the way of the formal evaluation of policy initiatives in the region has taken place. Continuing migration to the capital region and the polarized nature of Icelandic economic development clearly indicate however that the results of numerous efforts to change the course of development leave something to be desired. The Minister of Industry, which is responsible for putting the regional development policy into practice, must each year deliver to parliament a report on the progress of regional development policy. The last regional development policy contained 22 specific projects, which have made this follow-up process much more effective.

## **Sustainable and Less Sustainable Employment Systems**

This section is based on twelve life story interviews carried out in the Eyjafjörður region in the fall of 2004 and early 2005. The aim here is to combine these individual experiences with the previously undertaken analysis of the institutions and structures of the income system. Through the interviews, we are able to trace the factors that facilitate or hinder transitions within the income system. Such information is not available without focusing on individuals. Further information on the methodology of the biographical working life interviews can be found in chapter 1.

### **Lessons Learned from the Biographical Working Life Stories**

In some cases, these individuals could be placed into more than one of the categories of the classifications used in this study. Moreover, these life stories can be a sensitive matter for the individual. To protect the individuals' identity their names and sex have been omitted, as have their professions in some cases.

The background of the interviewees is very different indeed. Their education levels range from primary education to a PhD. It is apparent that those with higher education are working in the "new" sectors, e.g. education, research and institutions or companies with a service function, while those with a primary level education work in the "old" industries, e.g. manufacturing and food processing.

All interviewees were either married or cohabiting. No less than eight were born in Akureyri and in five cases this applied to the spouse as well. The area seems to be attractive to those who have relocated for either studies or work.

Being employed has traditionally been very important for the individual in Iceland, as in terms of self-image Icelandic values in this regard are similar to those of the North Americans (Ólafsson, 1996). As can be seen from the labour statistics, activity rates are very high. As such, it was obvious that the individuals interviewed here did not want to talk much about the periods during which they were unemployed. It is thus entirely possible that these periods could have been longer and more difficult than was related in the interviews. Those who were faced with this situation generally displayed a good survival instinct, e.g. they set out to visit all of the employers that could possibly have a job opening, or they started their own business. One person said: "I have never found a job without looking for it." Another got a temporary job with the assistance of relatives. One person who became unemployed after having worked at the same place for 40 years said: "I found this somewhat embarrassing since I felt too young and fit, to be walking into the unemployment office and to let others see me". What is specifically being referred to here is the rule of the employment agencies that the unemployed have to

register, in person, on a weekly basis while unemployed. The interviewee in question wanted an exemption from these embarrassing weekly visits since it was clear that a solution was being worked on.

An individual's skills and educational attainment are crucial in respect of their status on the labour market, and thus are a major factor in deciding what job opportunities are available to the individual concerned. It is apparent that those with a longer period of education behind them have more job opportunities and that the number of such opportunities in the region is growing considerably. There is however a marked difference between the opportunities of individuals within certain professions. Nurses, lawyers, business administrators, and teachers have various opportunities. When it comes to certain other disciplines however, such as architects, geographers and social scientists with postgraduate degrees, far fewer jobs seem to be available. There are indications then that the Akureyri region has just exceeded a certain minimum threshold when it comes to offering miscellaneous jobs for those with special education and training. In the case of couples with such backgrounds who have experienced working in smaller regions, they cited difficulties with both individuals getting the "appropriate" jobs in the same location. Taking this into account then, the location of e.g. government institutions requiring skilled personnel in small labour markets does not appear to be a viable policy in the spirit of sustainable regional development. As such, there is a risk that these institutions will suffer from high staff turnover and lack certain professional skills.

Those who had not obtained an education beyond the primary school level appeared to regret this. It seemed moreover that the background of the individuals concerned, as well as their age significantly affected their educational levels, as the possession of a further education was less common among the older interviewees. Starting a family early, the lack of money/wanting to be financially independent, laziness, and having no family tradition of further education, were the reasons most often stated for not continuing with educational studies. One interviewee noted: "Those without education beyond the primary school level are a dying breed, like me and my spouse" – there seemed to be regret. "When I was a child it was most common that people just worked – now people get much more education which is of course a good thing".

Some of those who only had a primary level education had obtained specific training at the company in which they had worked, but no formal qualifications. This was apparently rather common in the textile, leather, and fur industries in Akureyri. These skills were not however easily transferable into other jobs and industries. It therefore appears that a significant amount of 'know-how' has vanished along with this manufacturing base. One of the informants who had worked in the industry noted, "I think the worst thing about the changes that I have experienced

is all the knowledge and 'know-how' that has been lost in the process. When a whole industry, which in its heyday, provided employment for some 800–1,000 people doesn't exist anymore".<sup>8</sup>

As regards the institutional issues in the Akureyri region, interviewees repeatedly mentioned, the University of Akureyri as a crucial factor in creating jobs in the area and in providing the necessary environment for various institutions. These connections can occur in several ways. These institutions/companies may be located in close proximity to the university, making use of this in several ways. Employees may lecture at the university, or they may recruit graduates from the university and so on. In this way, reciprocal support is provided by the university on the one hand and the remaining institutional environment of the region on the other.

The multiplier effects of the University and the various institutions were also mentioned as being very important for the local economy. The interviewees estimate that these institutions and their staff are among the most important customers in the region.

One of the interviewees, in a managerial position, highlighted the importance of the University for their respective firm. The interviewee claims that this firm could be moved to Reykjavík at any time but this is a very valuable addition to the economy of the town. The firm, based on a foreign model, could be multiplied easily according to the interviewee. "They keep a low profile, ... the best hidden knowledge based firm in the town. There is the critical minimum of workers that need to be in a knowledge based firm". "Even if some of the staff are particular and only suited to sitting in front of a computer screen we send each of them to Reykjavík and elsewhere to meet customers, because this is what the customer wants". "It is just nonsense that everything has to be beside an international airport, we have disproved that. Everything that is related to knowledge or services you can do here, as long as you do as well or better than the rest". Almost all of the staff in the firm are graduates from the University in Akureyri. The firm has therefore created jobs for these graduates who might otherwise not have found a similar job in the town. "The proximity of the University is therefore crucial for us". Finally, some of the staff members have been teaching in the University.

Alarming voices can however be heard regarding the future development of the region and the University. One interviewee in a managerial position expressed worries about the development of the local economy that is characterized by the fact that larger companies in the Reykjavík area are buying smaller companies in the Akureyri region and transferring them into sub-divisions. In the process, some of the local jobs in Akureyri are discontinued or

<sup>8</sup>The number of employees was probably highest in 1986, just over 800 (Hjartarson, 1995).

transferred to Reykjavík. These are generally clerical and managerial functions that are added to the respective company's headquarters. The interviewee sees a lot of demand for these jobs in Akureyri but not much supply. This is also bad news for the University, as those who graduate, especially from the Faculty of Management or the Faculty of Information Technology face limited job opportunities in the area and thus may be forced to migrate from the area.

Commuting is something that a few of the interviewees had experienced. Two had tried to commute on a weekly basis out of the Eyjafjörður region a distance of some 2 hours. In both cases, this was a temporary arrangement, though it lasted for 1 ½ years in one case. Both found it tiresome to drive this distance and hard for the family to be away for several days at a time. Another interviewee commutes by air and works Mondays and Fridays in Reykjavík where the rest of the family lives and works in the middle of the week in Akureyri. All three mentioned the cost of commuting as considerable. One was offered a job within the Eyjafjörður labour market some 45 km from Akureyri. Due to the high costs of commuting, the individual chose not to take that job, in spite of the fact that it was an interesting offer and in the same industry as his former job, as well as being relatively well paid.

It is clear from some of the interviews that the old in-

dustries of Akureyri have been struggling for some two decades with considerable consequences for their employees. Four of the interviewees who had experience of such transitions had managed to remain employed for most of their working lives in spite of the considerable turbulence in their respective fields. Nevertheless, ongoing changes in the business environment have caused their many workplaces to either become bankrupt, or to move and/or merge with other companies. They have in fact been virtual bystanders as these changes in the business environment of the Akureyri region, in Iceland and in a global context, occurred around them.

The interviewees were also concerned as to how the employment market was changing, and how also attitudes towards work were changing. According to one interviewee, one's success very much depends on one's own attitude: "if you are hard working then you don't have to worry". The main problems with the attitudes of the younger workers' in particular are in, the interviewee's opinion, boredom and slothfulness, e.g. expressed in frequent sick leaves. This view is actually confirmed by an expert interviewee from the unemployment support system. This again could relate to the increase in disability pensions, which is one of the most noteworthy changes in the Icelandic employment system in recent years.

## Conclusions

### Permissive Factors for Sustainable Employment

Here a few indicators of, and conclusions on the likely factors contributing to sustainable employment will be discussed, based on both the study of the economic environment of the region, including the expert interviews, and the working life story interviews with individuals.

#### *Factors Pertaining to the Main Characteristics of the Region*

The economy of the Akureyri region has become increasingly diversified in recent years. This has opened up opportunities in particular for young, educated people who want to settle in the region and move into "suitable" jobs. The size of the town in the Icelandic urban context probably has a positive effect. The town of Akureyri is by far the largest outside the capital region. Moreover, there are few alternatives for those seeking an urban lifestyle outside the capital region and its immediate hinterland. The Akureyri region appears in fact to have some attraction for young people. It was e.g. apparent from the working life stories that many of them are return migrants.

#### *Institutional Factors*

Having a sizeable urban centre in the Icelandic context makes the institutional framework relatively strong and

the relative compactness of the region makes this framework accessible for inhabitants of other municipalities in the region. The educational institutions of the area are certainly one of its particular strengths. This applies both to secondary and tertiary education. The existence of the University of Akureyri has to be considered one of the main factors contributing to sustainable employment in the region.

The institutional framework which has been set up in order to either promote the area for investors and/or to assist innovators and entrepreneurs seems to be an important factor in efforts to broaden the foundations of the local economy and shows significant potential. If potential customers are familiar with how the system works there is a good level of assistance available in the region. This environment is however changing over time.

#### *The Business Environment*

According to the expert interviewees, there has been a significant change in the business environment in the region. Business is now more profit driven, and it is considered acceptable for individuals and companies to make money. Many companies have expanded in recent years.

### *Infrastructure*

The physical infrastructure of the region is in many ways supportive of the economy and thus of the drive for sustainable employment. One important issue in this regard is the excellent level of air transportation to and from the capital region. This makes it easy for business trips and meetings to occur, and makes it possible for a certain part of the workforce to commute between the regions on a weekly basis. The road system within the Eyjafjörður region can be considered acceptable by Icelandic standards but regarding road connections to other regions this does however not apply in the same manner. The municipalities, particularly Akureyri, have been proactive in planning for growth in the area by e.g. offering (both individuals and companies) building sites and access to the various infrastructure which is the responsibility of municipalities.

### **Obstacles to Sustainable Employment**

#### *Factors Pertaining to the Main Characteristics of the Region*

The share of the workforce with limited educational qualifications is one of the factors that could hinder sustainable employment in the region. A growth in the number of those receiving disability pensions is alarming, and provides a general cause for concern in Iceland.

#### *Institutional Factors*

The negative side of the institutional framework which has been set up in order to either promote the area for investors and/or to assist innovators and entrepreneurs is the lack of continuity and to a certain degree the ill-defined roles of each of the institutes resulting in a less effective system, and reduced accessibility for potential clients. The University of Akureyri has not received sufficient funds for its operations and has therefore been forced to cut costs.

#### *The Business Environment*

The development of the local economy, characterized by the fact that larger companies in the Reykjavík area are buying smaller companies in the Akureyri region and making them into sub-divisions of the parent company has a negative effect on the local economy. In the process, some of the local jobs, particularly clerical and managerial posts, in Akureyri are discontinued or transferred to Reykjavík. Furthermore, this development is, according to expert interviews, believed to have a negative effect on local suppliers in the area, as those firms that move their management services to the capital area tend to purchase their supplies from firms in that area.

The more profit driven nature of the business environment in the region appears however also to increase the insecurity of workers in the region. The industries in the region have been hit hard by foreign competition and this appears likely to continue.

### *Infrastructure*

The Eyjafjörður region is divided into 9 municipalities, and there are those who claim that to fully exploit the potential of the region the municipalities must join forces and amalgamate.

The transportation network to and from the region has considerable drawbacks with the exception of air traffic. Due to the topography there are continuous demands for better road connections over the mountains to the west and east of the region, i.e. the making of road tunnels. Furthermore, due to the long driving distance to the capital region there are increasing demands to shorten that distance, which is considered a drawback for industries in the region.

### **Suggested Policy Orientations for Sustainable Employment in Akureyri and Eyjafjörður**

A few policy orientations can be suggested here, based on the major findings of this case study, e.g. the permissive factors for sustainable employment as well as the obstacles to sustainable employment.

Increased economic diversification is a key factor for sustainable employment. Continued growth in the area will further increase diversification. The University of Akureyri has been a vital addition to the economy of the region and it is thus necessary to allow the University to continue to grow and expand. Further growth and/or relocation of government jobs to the region is important.

Emphasis on education has to be put at the forefront of any future regional strategy. Those who have better education and/or training are much better off on the labour market.

More comprehensive and more clearly defined roles are needed for the institutes in the support system for industry and innovation.

Tax deductions or other incentives for those who want, or need, to commute to work over considerable distances would be desirable.

Increased emphasis on continuous training and re-training for those who want, or are forced, to change jobs is also important. This applies in particular to those with lower education levels.

Emphasis has to be put on programmes aimed at the rehabilitation of those disabled who could potentially be reintroduced back into the labour market.

Better road connections to better connect this labour market with the adjacent labour market areas to the east and west, and to better connect the area to the capital area are also required.

The amalgamation of the municipalities in the region would, it is believed, strengthen the municipal level and have a positive effect on the future economic development of the region.

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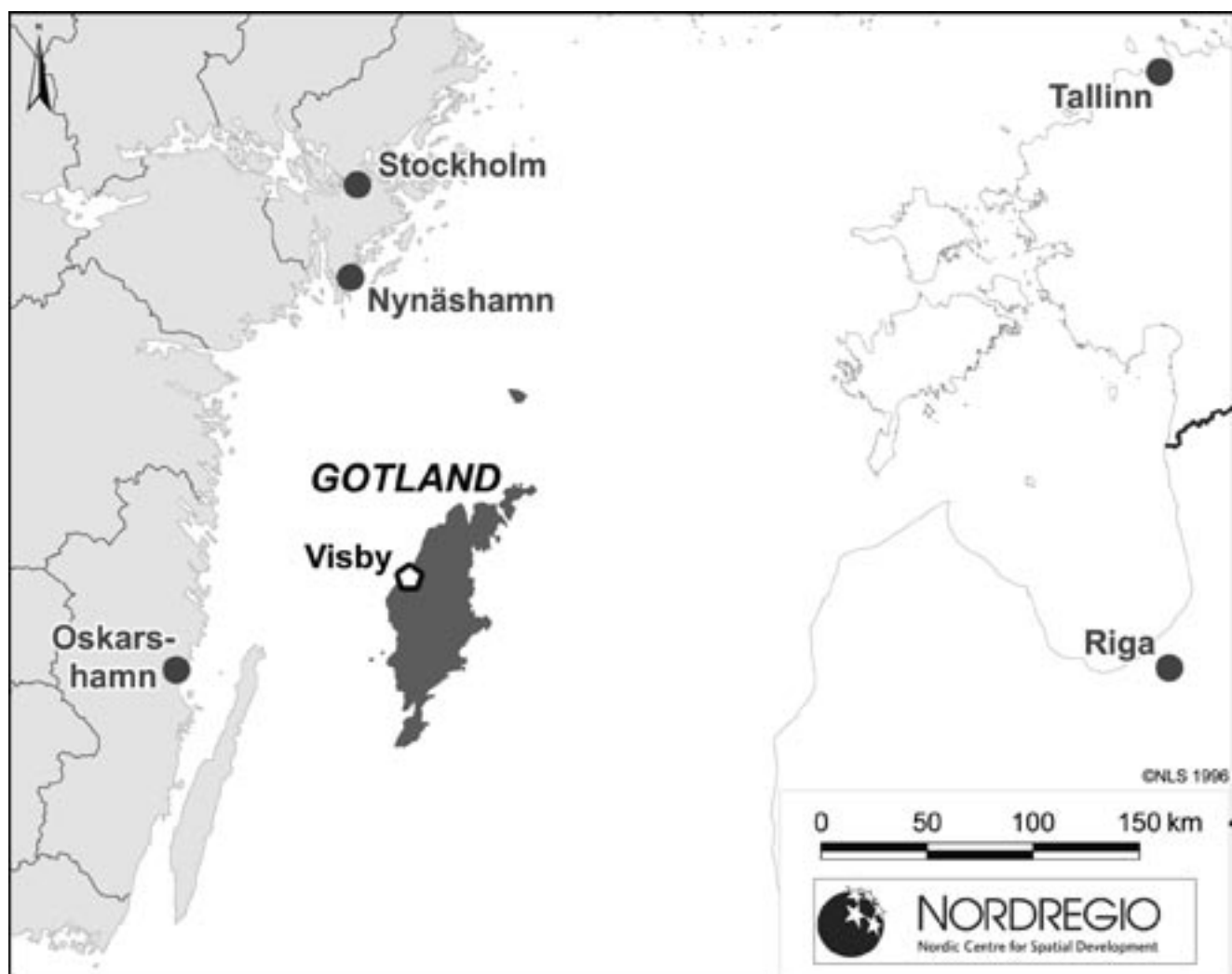
## Interviews with Key Informants

- Arnórsson, Þorsteinn, employee of Eining-Iðja labour union and former president of the Iðja labour union.
- Gíslason, Björn, expert of Imprá Innovation Centre.
- Hjálmarsdóttir, Kristín, former president of the Iðja labour union.
- Jóhannesson, Eiríkur S., managing director of Kaldbakur holding and former managing director of Kaupfélag Eyfirðinga (The cooperative of Eyjafjörður) and employee of the bank Landsbankinn
- Jónsson, Halldór managing director of FSA University Hospital – Regional Hospital, Akureyri and former mayor of Akureyri 1990–1994
- Karlsdóttir, Helena managing director of the labour exchange office in north-east Iceland, Akureyri.
- Snæbjörnsson, Björn, president of Eining-Iðja labour union
- Ásgeirsson Magnús, managing director of Akureyri Region Business Agency.

## Other Informants

- Orlygsson, Ormarr, managing director of Skinnaiðnaður hf (Iceland Skin Industries Ltd.), Akureyri.
- Stefánsdóttir, Sigríður, former member of Akureyri town council.

Figure 5.1 Gotland and the surrounding area. Source: Adjusted original from Gotland Municipality.





# 5. Making a Living in Gotland – Challenges to the Income Systems

‘It is enough for me and my “vole”.’ This is an oft-quoted saying when discussing the subject of making a living in Gotland. The word ‘vole’ (*sork*) means ‘boy’ in Gotland dialect and the saying reflects a long-standing tradition of farms and small firms that provide a living for the family. This heritage is a double edged sword; it reflects an entrepreneurial tradition where people are used to making a living for themselves but at the same time it suggests complacency where there is limited drive to see companies expand and thus to provide employment for others. How do people in Gotland make a living in a period of fundamental economic restructuring? In this chapter, challenges to the income system in Gotland are discussed against the backdrop of the models and concepts presented in chapter 2.

The chapter begins with an introduction to Gotland providing the context for the income system on the island. This section is followed by a discussion of the structural characteristics of the labour market and the workforce in

Gotland. Issues relating to the composition of the social, institutional and policy framework of the income system are then briefly addressed, followed by a section focusing on individuals’ experiences of the income system in Gotland based on biographical interviews. Special interest is paid to transitions in the income system, while the individual experiences conveyed are linked to the structural framework of this system. Some tentative reflections on the theoretical framework of the study are then made. Finally, we conclude by indicating some of the permissive factors and obstacles for the sustainability of the Gotland income system, providing some ‘soft’ policy recommendations in the process. The chapter is based on information taken from an investigation of already existing reports, a general literature survey, key informant interviews, and a number of biographical interviews. The project methodology is further developed in chapter 1.

## The Island of Gotland – Sweden’s Smallest County

Gotland is located in the middle of the Baltic Sea, around 90 kilometres from the Swedish coast (see figure 5.1). The total area amounts to 3,140 km<sup>2</sup>. The distance between the southernmost and northernmost points is 176 km while the island is, at its widest point, 50 km from coast to coast. The fact that Gotland is an island lying some distance from the mainland has a number of implications for the issue of insular income systems. As the definition of these systems indicates (see chapter 2) it is not possible for Gotlanders to commute on a daily basis to a neighbouring labour market. Furthermore, its location also suggests the need for a larger public sector than the size of the population would otherwise suggest. Healthcare and emergency services, for example, cannot be shared with a neighbouring local authority. For geopolitical reasons, the armed forces have also been major employers on the island, a situation that has now come to an end in the aftermath of the geopolitical transformation of the Baltic Sea region that developed after 1989.

Communication with the mainland is very important, and has improved in recent years. The ferry company, *Destination Gotland*, sail to Nynäshamn, just south of Stockholm and Oskarshamn and transport around 1.4 million passengers per year. The fastest journey to Nynäshamn

takes just under 3 hours. Flight connections to the island are well developed and there are daily flights to both Stockholm airports and to Linköping/Norrköping. The flight time to the most central Stockholm airport, Bromma, is only 35 minutes. About 300,000 passengers per year use the flight connections. The number of ferry and flight connections increases in the summer to support the large influx of tourists.

Gotland is Sweden’s only unitary authority where the district and county councils are merged into one entity. In addition, Gotland is subject to a pilot project relating to the changed division of regional responsibilities. Some of the responsibilities normally held by the state at the regional level have been transferred to the local authority. (Statskontoret, 2003) This is highly relevant for this study, since these responsibilities include strategic work for regional development.

### Demography and Population Dynamics

Gotland was at its peak, in population terms, in 1945 when around 59,000 inhabitants lived on the island. The population then decreased to fewer than 54,000 during the 1960s followed by a period of slow but steady growth. The

Figure 5.2 Map of Gotland. Source: www.gotland.se



population now fluctuates around 57,500. (Gotlands kommun, 2005) In the summer months, the population increases by around 20,000. This are people that own or rent second homes on the island, the so-called 'summer Gotlanders'. In addition, around 750,000 tourists visit during each summer season. (Länsstyrelsen i Gotlands Län, 2004)

In 2005, Gotland had around 57,600 inhabitants, some 22,600 of whom lived in Visby. Other settlements of importance are Slite (1,700), Hemse (1,800) and Klintehamn (1,500) (see figure 5.2). Over time, we can see that there has been an ongoing population shift towards Visby. Gotland has a disadvantageous age structure with an ageing population. The forecasts for the period after 2015 indicate that there will be 2,200 fewer people in the labour force compared with 2004, and that the number of Gotlanders over the age of 60 will increase by 4,500. (Länsstyrelsen i Gotlands Län, 2004)

Gotland has traditionally seen only limited migration compared to other regions in Sweden. However, due to the age structure of the migration pattern the effects are high. The age group 16–29 years has accounted for about half of all in- and out-migration. During the 1990s, the net migration loss in this age group was about 1,300. Contrary to

many other regions in Sweden, Gotland registered a net in-migration for all other age groups. (Eurofutures, 2001)

This picture is however now changing, with both in- and out-migration increasing over the last decade. One reason for this is the establishment and expansion of the university college. There is still a net migration loss of young people in Gotland, but the new influx of young people that move to Gotland to study holds the potential to help turn the tide, if it is possible to retain some of them on the island after they have graduated. In contrast to many other regions in Sweden, Gotland has a small peak of net in-migration in the age groups around the retirement age. (Länsstyrelsen i Gotlands Län, 2004)

### 'Path Dependence' – Historical Roots to Today's Economic Structure

The island's natural resources and location have always been important factors for the local economy. The island is characterised by a long agricultural tradition and this sector, and the food processing industry in particular, remain important although they seem to forever be in a continuous state of restructuring and/or decline. There is also an important tradition of exploiting the limestone of the island, both as a raw material in stone works and for cement production. In addition, the agricultural sector has developed in new ways, for example with organic farming and artisan production of foodstuffs. Farm houses and out-buildings have also been turned over to other uses such as for housing, second homes, bed and breakfasts and workshops. New niche products are also being produced from e.g. sheepskin and limestone.

The manufacturing sector, apart from food processing, has traditionally been strongest on the northern part of the island. Modern concrete production has been in place at Slite in north Gotland since 1919. Today this company is called *Cementa* and employs around 250 people. *Ericsson*, later *Flextronics*, was a major manufacturing employer in Visby. The unit was finally closed down in 2003, and over the course of only a few years some 1,200 jobs in the company were lost. (Motion 2005/06:N364) However, there are also companies within the manufacturing sector seeing a positive development, the largest one being *Nimbus Boats* with 240 employees (Gotlands kommun, 2005).

The location of the island has for centuries brought trade and visitors. Along with the natural resources of the landscape and a good climate, this has contributed to the most important private sector of today's economy – tourism. The rich history of the island is also an important asset for the tourism industry, while Visby has, since 1995, been a World Heritage site. The annual event of the Medieval Week in August is another way in which the historic heritage is harnessed and contributes to today's economy of Gotland. It is estimated that this event attracts around 50,000 visitors (Brulin & Emriksson, 2005). The historical resources of the island have also played a role in the devel-

opment of the public sector. The first higher education courses provided in Gotland were within fields such as archaeology and building restoration. In recent years, the establishment of Gotland University has resulted in an important expansion of the educational sector. The University has build on these topics but broadened the course programme to a wider range of subjects.

The public sector as a whole is the largest source of employment on the island. Previously, the armed forces played a key role. The defence forces were, in previous times, a major employer at the bases in Färösund and Visby. In 2000 however, the coastal artillery base KA3 in Färösund was closed down. The decision to close the P18 base in Visby was taken as late as December 2004. The single largest employer on the island is Gotland council, which, as a unitary authority, carries responsibility for health and medical care as well as education, public transport, social services, and all of the other tasks of the local authorities.

There have been several rounds of state agency relocations in Sweden. Gotland has benefited from several such relocations; including the state-owned gaming company *Svenska Spel*, which today employs 265 people in Visby. Its predecessor *Penninglotteriet* was relocated to Visby in 1975.

The cultural sector and heritage, including arts and crafts, film, music, and other activities is also part of the Gotland tradition. Internationally, it is probably film director Ingmar Bergman at Färö that is the most well known representative. Today the island's wide range of arts, crafts and cultural activities and entrepreneurs act both as a source of income and, indirectly, as an added attraction in terms of the tourism sector. The film sector today includes a new development on the old KA3 site in Färösund;

Kustateljén where 9 feature films have been produced in the last few years. Many individuals in the cultural sector are micro businesses and have started their own companies, often in the countryside.

The Gotland economy is characterised by a large number of small firms and a high share of self-employment. Gotland is the county with the largest share of companies with less than 20 employees. It has among the largest number of enterprises *per capita* – over 115 per 1,000 inhabitants (Gotlands kommun, 2004). Gotland, as with many islands, also has a tradition of multiple job holding where many people combine different activities to make a living. Often the basis for this has been a small farm where additional income has been generated from processing raw materials from the farm, from fishing or from a diversity of jobs in other parts of the economy. Multiple job holding is still common, and households with assets such as a small farm, outhouses or perhaps machinery can earn their income from several sources today often with tourism in one form or another as playing an important part.

A final characteristic feature that should be mentioned in connection with path dependence is the difference between Visby and the rest of the island. This is stressed in many of the interviews, both with key informants and the individuals that were interviewed about their working life biographies. One of the interviewees that moved to Visby from Stockholm said: 'Here in Visby, the way people dress, the coffee shops and so on – it is all very Stockholm-like.' Several interviewees mentioned that if you live further out in the countryside and do not work or study in Visby, you may not go there very often. Many mentioned an active identification with the local area, quite active local associations and networks.

## Structural Characteristics of the Gotland Labour Market

The largest economic sector in Gotland in terms of employment is the public sector where the single largest employer is the unitary authority of Gotland Council employing almost 7,300 people in 2005. (Gotlands kommun, 2005) Alongside the importance of the public sector, the Gotland economy has for long been characterised by agriculture and the food industry together with the tourism sector. Other parts of the service sector have played a smaller role. In this field there are, however, examples of growing companies e.g. *Faktab Finans* and *Svenska Spel*. (Näringslivsutvecklingsprogram för Gotland, 2003) In 2005, these two companies employed 450 and 265 people respectively. (Gotlands kommun, 2005)

The ongoing restructuring of the Gotland economy has impacted quite severely in employment terms with around 2,200 jobs being lost in four years. This translates

to over 8% of those in employment having lost their jobs. (Prognos Gotlands Arbetsmarknad, 2006) As indicated above, both private and public sector jobs have been lost.

### Restructuring of the Public Sector

The restructuring of the public sector includes sectoral shifts where the military bases are being closed down at the same time as the higher education sector is expanding rapidly. The military regiment KA3 Färösund was closed in 2000. Before closure, around 170 people were working at KA3. The P 18 regiment located in Visby, had around 600 employees in 2004, of whom, some 300 were civilians. According to a National Defence decision of 2004, the regiment will be disbanded during a process that will run until the end of August 2006. The disbanding of KA3 was particularly troublesome from an employment point of view

since it was located in small settlement. However, the former base has been transformed with the aid of major public investment, including some EU funding, and there are now a number of different activities located there.

The largest employer in Gotland, the Council, has also undergone a period of economic difficulty, and has seen a significant reduction in its workforce over the last few years. As compensation for job losses, the state has decided to allocate several government agencies, or parts of agencies, to the island over the next few years. This is a policy that has been used previously, both in Gotland and in other parts of the country. We will return to this policy later in this chapter.

Another large public employer is *Sambhall* with around 300 employees. It is a state owned company with outlets all over the country that offers employments for persons with functional impairments. *Sambhall* nationally, as well as on Gotland, have experienced cutbacks over the last few years due to a policy change which has seen the company being run in a more competitive manner. *Sambhall* has undertaken extensive activity on the island, something that is linked to the relatively limited opportunities for people in this group to attract other forms of income in a small labour market.

#### *Private Sector Restructuring in Gotland*

Restructuring within the private sector includes the continuous decline in the agriculture and food processing sectors, and job losses in manufacturing, particularly relating to the closure of the large company *Flextronics*. However, there are a growing number of firms in the private sector and apart from a few larger employers such as *Faktab* and *Nimbus*, there is also a growth in small and micro companies across the whole spectrum of service industries. New firms that have emerged during the last ten years for instance include the *Gotlandsring*, a racing track that is developed on the northern part of the island. The track is also used as a testing facility, for training of driving skills and events. The old KA3 barracks have also been redeveloped and today include a film studio where e.g. the van Veeteren films are being shot. The island is also used for fashion shoots making use of the unique landscape and light on the island. Some of these activities may not, on their own, contribute many new jobs, but they bring some employment and play a role in the place marketing of the island.

Employment in the agricultural sector has declined over a number of years. Furthermore, those in the younger generation that are interested in continuing with farming activities often adopt new approaches, such as ecological production and the use of advanced technology. (ALMI, 2003) Agricultural productivity on Gotland is below the Swedish average, but the open landscape is needed for conservation and tourism. (Näringslivsutvecklingsprogram för Gotland, 2003)

Many of Gotland's companies deliver to a small domestic market, although there are some exceptions. *Faktab Finans*, for example, a company started by a young local entrepreneur, has outlets in Stockholm, Copenhagen,

Oslo, and Helsinki. *Nimbus Boats* also operates on the international markets, and there are several small firms with a market well beyond Gotland, e.g. *G.A.D.* There are also micro businesses that operate on the international market, both within manufacturing and in the service sector.

#### *Gotland Is Characterised by Many Small Firms*

With few exceptions, the firm size structure in Gotland is very biased towards micro and small businesses. There are few companies in the category 5–30 employees, which is considered a disadvantage since this is a size group that tends to have the potential for employment growth. Another disadvantage with a large share of micro businesses is that it is more difficult to develop a business climate, since sole traders tend to struggle to find time for networking with other firms and to be active in business organisations.

There are over 6,800 companies in Gotland, of which 1,500 have at least one employee apart from the owner. (Gotlands kommun, 2005) The lack of employment growth among the small business sector is identified as a crucial problem in Gotland. One attempt to address this issue was a project in 2003 aiming at encouraging companies to expand. Around 50–60 companies with growth potential were identified. Measures to stimulate employment growth in these companies included a mentor programme and support for the establishment of networking between different companies. (ALMI, 2003)

A key actor for company growth and start-ups is ALMI, which is a publicly owned company. ALMI has the task of stimulating growth and development in small and medium-sized companies and innovators. This task is carried out through two main functions, financing and business development. ALMI runs business start-up courses in collaboration with the employment office and is also involved in strategic partnerships with e.g. the local authority, the County Administrative Board, and the university college.

Around 180–230 new companies start-up on Gotland every year. Compared with the national average, business start-ups by women in Gotland are quite common. Many new companies are established in the crafts sector, e.g. in the skin and wool sector (Nordlund, 1998). A fairly common category of start-up entrepreneurs are women that have previously worked in the public sector and whose children have left compulsory schooling. Many of these women start companies in different fields from their previous employment, such as craft or artisan food production. However, there are also examples of new firms delivering care services to the local authorities or personal services such as health and beauty treatments.

A different type of business start-up can be found in the association Gotland Interactive Park (GIP). This is a recently established meeting-place, incubator, and studio focusing on interactive media, game development, and experience tourism. Private companies as well as Gotland University and Gotland Council are collaborators in GIP.

The aim of GIP is to contribute to employment growth through business start-ups as well as through developing existing companies, and to strengthen the interactive media sector of the university college. GIP provides an opportunity for the students and staff of the university, as well as for other entrepreneurs, to develop their own businesses. ([www.gotlandinteractive.com](http://www.gotlandinteractive.com))

### Labour Force Characteristics

The basis for labour force statistics in Sweden is the Labour Force Survey (AKU), which includes the population of 16–64 years of age. Based on these statistics, the potential labour force in Gotland has increased from 36,100 to 37,700 between 2000 and 2004. However, the actual labour force is considerably smaller since not everyone in this age group is available for work. A large share of the younger age groups are studying, while others, such as the disabled or otherwise incapacitated are also unable to participate in the labour force. The actual labour force therefore consists of those that have a job and those that are unemployed. In 2004, this group consisted of about 28,100 people in Gotland. According to the same statistics, approximately 26,700 of these had a job but only 22,400 were actually working. The remaining 4,300 (16%) were absent from their jobs for various reasons, including sick leave or holiday. ([www.scb.se](http://www.scb.se))

### Employment in Gotland

The number of people in employment in Gotland has been fairly stable, at around 25,000, over the last ten years. The employment ratio<sup>1</sup> was 77% in Gotland in 2003, just below the national average. If this is recalculated into full time equivalents, the Gotland employment ratio is 70%, which is slightly higher than the national figure. This means that people in employment and self-employment *as a whole* work comparatively long hours in Gotland. (Länsstyrelsen i Gotlands Län, 2004) There are, however, large variations where some people work very long hours during the tourist season and others are involuntarily in part-time work and receive part-time unemployment benefit to compensate for this.

A characteristic factor of employment in Gotland is its 'seasonality' due to the prevalence of the tourism sector. During the summer months, the demand for labour in Gotland is far greater than the local supply and there is a great influx of people from the mainland and further a field to work in Gotland. Key interviewees also indicate that there are Gotlanders that work extremely long hours during the tourist season and then have a more limited income from other sources during the rest of the year.

During the last ten months of 2005, an average of around 330 jobs was advertised at the Employment Offices

in Visby and Hemse each month. ([www.i.lst.se](http://www.i.lst.se)) Key interviewees estimate that the real number of jobs available is between two and three times as many. Consequently, many jobs are advertised, discussed, and filled, via family, personal contacts and networks. This was also confirmed in a number of the biographical interviews undertaken in Gotland (see below).

The tourism industry is very important for employment in Gotland. Statistics for this sector are however difficult to generate both because tourism covers a number of different activities that are classified in various sectors and because of the strong seasonality of the employment. According to the Gotland Tourist Association, the tourism industry engaged the equivalent of 1,579 full time employees or self-employed people in 2003. This employment was distributed over different parts of the tourism industry where accommodation and restaurants engaged the largest number of people (see table 5.1).

### Commuting Patterns

It is not realistically possible to commute on a daily basis to and from Gotland. This is why Gotland is defined as an insulated labour market in this study. There are, however, a few people commuting a couple of days per week

*Table 5.1 Employment in the tourism industry in 2003*

Field	Number full-time equivalents
Accommodation	434
Restaurant	313
Transport	191
Events and activities	160
Shopping except food	155
Food shopping	106

*Source: Gotlands kommun, 2005*

using the flight connections to Stockholm. One of the interviewees that lived in Visby works in greater Stockholm, but does not travel every day. The flight connections combined with the opportunity to work from home using broadband connections facilitate this. On a weekly basis, the number of commuters is greater and the opportunities for commuting have increased with the improvements in communications with the mainland alongside the investments in broadband technology on Gotland. A national survey carried out in 1999 revealed that there were 1,397 commuters from Gotland and 760 that commuted to Gotland<sup>2</sup>. (Länsstyrelsen i Gotlands Län, 2004) Some of the commuting to Gotland in that survey may be explained by people working in the tourism trade on the island in the

<sup>1</sup>The employment ratio is defined as the share of the population aged 20–64 that is working.

<sup>2</sup>Here commuting is defined as working in a different municipality than where one lives.

summer, but key interviewees argue that the number of highly skilled people working in Gotland but living mainly in the Stockholm area has increased, not least due to the establishment of the university college.

### *Unemployment in Gotland*

Compared to Sweden as a whole, Gotland had a lower unemployment rate until 2002. Since then, the situation has been somewhat reversed. The restructuring of the labour market with major closures as mentioned above, has contributed to higher unemployment. Over the last few years, the trend has been towards an increasing number of people, often men, who had previously been employed in 'secure' jobs being made redundant. Many of these people are comparatively low skilled and need training courses to stand a better chance of re-entering the labour market. There is also a comparatively large share of people, mainly women, who are involuntarily in part-time employment combined with drawing unemployment benefits on a part-time basis. Unemployment among young people is also higher than the national average, a traditional situation in Gotland, particularly among those with limited qualifications. There are few openings on the small labour market of Gotland for these young people particularly outside the tourist season. (Länsstyrelsen i Gotlands Län, 2004)

Annual average unemployment in Gotland has increased from 3.5% in 2000 to 4.8% in 2005. In addition to those unemployed there are also people taking part in labour market measures, such as training programmes and work-placements. During 2005, an average of 2.8% of the labour force were taking part in such unemployment schemes. This means that total unemployment was 7.6%, or 2,753 individuals, in Gotland compared with 6.3% in Sweden as a whole. Youth unemployment is a considerable problem in Gotland and in 2005 the average annual unemployment figure among the age category 18–24 years, was 8.4% with a further 5.1% in unemployment measures. (www.ams.se)

### *Sick Leave in Gotland*

The share of the labour force that was not working due to ill health was about 15% in Gotland in 2004, which was below the national average of 18%<sup>3</sup>. (www.forsakringskassan.se) However, key interviewees in Gotland pointed out that the number of people on sick leave has increased over the last ten years. There is a marked increase in the number of older women in this age group that are on sick leave. One reason mentioned for this is that many women have carried a double workload of paid employment and the main responsibility for housework. Women have a larger share of sick leave than men in other age groups as well, and this is an international pattern. The reasons for this are multi-faceted including the occupations that men and women

<sup>3</sup>This is defined as the number of days per insured person and year that sick benefit is paid (sjuktal).

tend to occupy, and also the issue of women often carrying a double workload. This is a complex matter that is more of a national and international issue and is thus difficult to disaggregate at a local level.<sup>4</sup>

### *Human Capital – the Educational Level of the Workforce*

The educational level of the population is characterised by low educational attainment. A fair share of those with higher education are incomers who often work in public administration, education and in the healthcare sector. The share of people with higher education is comparatively low in the private sector. (Eurofutures, 2001)

The island has the lowest regional transition rate from secondary education to higher education in Sweden. During the 1990s, several initiatives were taken both in terms of skills development and in respect of changing attitudes concerning a more positive view towards education. Several higher education courses were also offered in Gotland, with Gotland University being established in 1998. Despite this, there has been no change to speak of in terms of closing the gap between the share of the population in Gotland and the country as a whole in terms of higher education. (Näringsutvecklingsprogram för Gotland, 2003) Recently, a project at Gotland University, in collaboration with other educational institutions, the local authority and industry, has encouraged young people on the island to continue studying in higher education.

There are several educational institutions in Gotland. Basic adult education for those that have not achieved final grades in compulsory and secondary schooling is provided through municipal adult education (KomVux). This institution plays an important role in the transition of people from unemployment, either to provide the necessary qualifications for taking part in higher education or to improve their options on the labour market. There is also a residential college for adult education with two sites. One in Hemse, established already in the late 19<sup>th</sup> century, and a new unit in Fårösund located in the old military base KA3. About 300 students study at the college on the winter courses. Gotland municipality runs the college. The private training company *Lernia* is also present in Gotland and is involved in a number of tailor-made training programmes.

Educational possibilities were substantially improved on Gotland after the university college was established in 1998. Prior to that, some university courses were offered in Gotland, mostly as distance education and as outlying parts of universities in Stockholm. The university college offers education across a wide range of courses, some being connected to the special local conditions in Gotland, e.g. archaeology, history, and building restoration, while other programmes are generic and offer courses in e.g. econom-

<sup>4</sup>The issue of sick leave, ill-health, and gender are discussed in Riksförsäkringsverket, 2004, 'Kvinnor, män och sjukfrånvaron', Socialförsäkringsboken 2004.

ics and teaching programmes. A particular subject specialism here is the offering of degree-level courses in game development (interactive games).

### Marginal Groups on the Labour Market

Both young and older people with limited qualifications and skills are weak groups on the labour market. Many in the older category have had a very long employment history in the defence sector or in e.g. *Flextronics*. When they were made redundant, they found that there was very little demand for their skills on the small Gotland labour market. This category of the workforce struggle to find new employment anywhere and it is likely that many older Gotlanders have limited chances in finding new employment on the mainland. People with health problems and with functional impairments also run a risk of becoming marginalised not least as a result of the restructuring of *Sambhall* mentioned above.

### Quasi Market Solutions and Informal Income

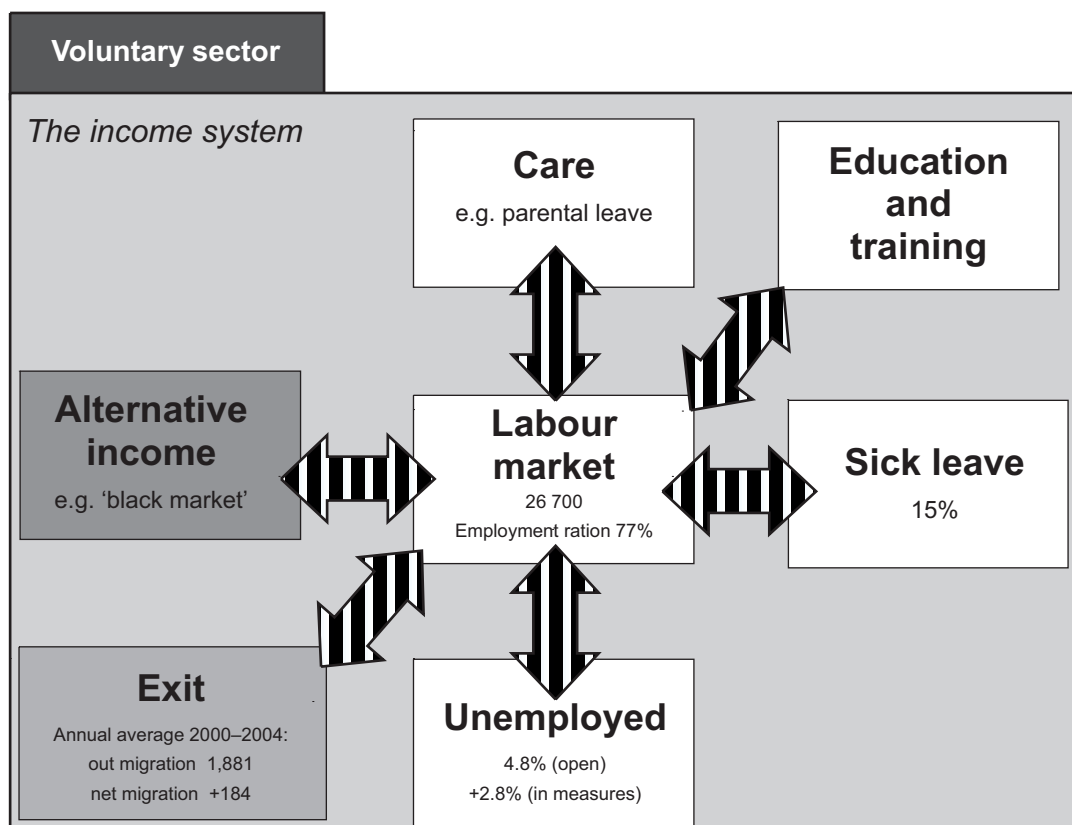
Income can be earned in other ways than through the formal, taxed economy. In all parts of the country, there is a 'black' economy where people take on jobs outside the tax system. Within this project there is no way of knowing how big the black economy is in Gotland and how it compares with that of other parts of the country. Key inter-

viewees have, however, pointed out that if you have a house, outhouses, and machinery, then there is an opportunity to earn some income in this way. Two specific ways of earning an income related to the tourism sector were to look after summerhouses and their gardens, and the letting of houses, cottages, and flats to visitors.

Another side of the quasi market is the need to recruit key professionals to jobs where there is a shortage of qualified staff. In such cases, simply advertising may not be enough. There are other recruitment campaigns for example in relation to medical staff at the hospital. Gotland, along with many other health authorities, has undertaken recruitment drives at numerous medical meetings and fairs.

A schematic way of looking at the income system is provided in figure 5.3. This model, which is further discussed in chapter 2, focuses on the labour market and transitions between this and other parts of the income system. The previous section of the chapter dealt with key parts of the system in this study. In figure 5.3 some indicative quantitative measures of the different parts are provided. In the subsequent section, policies and strategies to promote transition into the labour market and support employment growth will be briefly discussed. Following that, the focus shifts to individual experiences of how people have made a living in Gotland and their transitions between the different 'boxes' in the model.

Figure 5.3 The Gotland transitional income system 2004/2005. Source of model: Dahlström & Persson, 2005, adapted after Schmid (1998)



Notes: 'Labour market': the figure 26,700 refers to people in employment 2004, 77% is the employment ratio 2003. 'Unemployed': the figures refer to averages for 2005. 'Sick leave': the figure refers to the number of days per insured person and year that sick benefit is paid (sjuktal) and refers to 16-64 year olds in 2004.

# Policies and Strategies Promoting Employment Growth and Access to the Labour Market

There are a number of different actors involved in policies promoting employment growth and access to the labour market in Gotland. There is the international and national framework, and in Gotland the local actors responsible for these issues such as the Council and the County Administrative Board. The overarching theme of this policy field can be labelled regional development policy. The strategies for regional development in Gotland are expressed in the regional growth programme, which is a compulsory tool that all regions have to produce. In Gotland, it is the Council that carries the responsibility for producing the growth programme. Specific labour market issues are the main responsibility of the County Administrative Board that is also responsible for the employment service. In this section a brief overview of key policies, actors and funding will be given.

## Regional Development Strategies and Funding Opportunities

The regional growth programme for 2004–2006 is the uniting strategy that forms the framework for more specific initiatives. The strategy steers the use of the Council's regional development resources and other initiatives to promote economic development. The strategy is also intended to guide other actors' work regarding economic development. The programme has been developed in a broad partnership where key actors, other than the Council and the County Administrative Board, include, e.g. the university college and ALMI. The programme has identified five target areas for initiatives; experience tourism, interactive media, manufacturing and services, soft and hard infrastructure, education, training, and competence development. Within each of these five focus areas there are a number of more specific initiatives, e.g. to continue developing Gotland Interactive Park. (Näringslivsutvecklingsprogram för Gotland, 2003)

There are a number of funding opportunities for regional development initiatives and support for different economic activities, including several EU programmes. ALMI, mentioned above, is an important actor in relation to business start-ups and development with their tools including training, coaching, and financial loans. In terms of EU programmes, Gotland is entitled to Objective 2, and 3 funding, both of which are highly relevant to the theme of this study. Objective 2 funding has, for example, been important for the redevelopment of the KA3 area and the film initiative in Fårösund. There have been over 500 projects part-funded by Objective 3, which is aimed at skills development.

Gotland also receives important EU funding related to

agriculture and rural development. There is also funding through the common agricultural policy, which amounted to SEK 245 million in 2004. It has been estimated that this EU funding accounts for around 20% of the turnover of the Gotland agricultural sector and is therefore of great importance to employment in that sector and for the related food industries sector. ([www.i.lst.se](http://www.i.lst.se)) All of Gotland, apart from Visby and its immediate surroundings, is eligible for EU funding in the LEADER+ programme. This programme supports untried, innovative development strategies and aims at contributing to new employment. LEADER+ is important because it aims at diversification and new ways of earning an income in the countryside, something that is necessary since the agricultural sector itself is declining.

## Labour Market Policy and Initiatives

The overarching role of labour market policy is to match supply and demand for labour. The task includes supporting employment growth and the skills development of the unemployed, facilitating people with a weak position on the labour market to find a job and to combat exclusion from the labour market. The most serious problem of the Gotland labour market is the marginalisation and exclusion of people from it. Such exclusion is often the result of long periods of sick leave that may result in early retirement for health reasons. Those particularly at risk of exclusion include young people with limited qualifications and unemployed people over the age of 50. (Länsstyrelsen i Gotlands län, 2004)

The employment services support both those seeking work and employers looking for staff. This is done in various ways, including capacity-building and the training of those that need new skills in order to stand a better chance on the labour market enabling them to be better able to contribute in terms of competence development within companies and organisations. Measures focussed on the unemployed people also include work-placements. The employment service collaborates with the social insurance agency (*Försäkringskassan*) and with the social security office of the Council. This collaboration can include supporting marginalised people in their aim to find employment. Several key interviewees mentioned the ongoing work of improving this collaboration, and argued that it was easier to collaborate in Gotland than in larger labour markets. Many of the officers know each other and this, along with initiatives such as joint courses for the desk officers, promote cooperation for the benefit of the individuals concerned.



## The (Re-)Location of State Agencies to Gotland

Over the years, a number of state agencies have been fully or partially relocated to Gotland as an integral part of Swedish regional development policy. *Penninglotteriet*, now *Svenska Spel*, mentioned above being a prime example of this. Other parts of the country have also gained state intuitions in this manner. In recent years, Gotland has received state jobs as compensation for job losses in the defence sector and e.g. the closure of *Flextronics*, and more state jobs are due to being relocated in the next few years.

Several 'compensation packages' have been arranged in connection with these closures some of which have already

resulted in new state jobs in Gotland while others are to come in the years ahead. Not all state jobs are the result of relocations. One example is the investment in Gotland University, where the government in the 'Gotland package' of 2004 promised a doubling of the number of students at the university college over the coming decade. This expansion is estimated to result in 100 new jobs. The County Administrative Board has published a list of new state jobs that are planned for Gotland as part of the latest national defence policy of base closures. This list includes a total of 690 full time jobs in at least nine agencies and state owned companies. ([www.i.lst.se](http://www.i.lst.se))

## Making a Living in Gotland – Experiences from Ten Individuals

This section is based on ten life story interviews carried out in Gotland. The aim is to combine individual experiences with that of the institutions and structures of the income system dealt with thus far within the context of this chapter. By conducting the interviews, we are able to trace the factors that facilitate or hinder transitions within the income system. Such information would not be available without focusing on individuals. The information gained through the interviews illustrates the processes while highlighting the issues discussed against the backdrop of the models and concepts presented in chapter 2. Further information on the methodology of the biographical working life interviews can be found in chapter 1.

### Ten Working Life Stories

The life story interviews in Gotland were carried out in the autumn of 2004. In all, ten people were interviewed, five men and five women. Five of the interviewees lived in Visby at the time of interview, while the others lived in different parts of Gotland outside Visby. The interviewees spanned people between the ages of 31 and 60, three were born in the 1940s, two in the 1950s, four during the 1960s, and one in the 1970s. In table 5.2 a brief overview of the interviewees is given under the category headings developed further in chapter 1. The aim of interviewing people of different categories was to achieve a set of 'richness of life' stories about how to make a living in Gotland. Together, the ten stories provide many interesting examples of how people make transitions in the income system e.g. through retraining or aided by personal contacts. The broad categories of interviewees should not be seen as mutually exclusive, they have been identified to help us find different types of stories. It is likely then that the same interviewee could fit into different categories, or that characteristics in one category could also be found in another. Most importantly, the inter-

viewees represent themselves and tell us 'their' story; they should not be seen as representing a particular category.

It is also worth adding a comment about the time factor in this research. We have deliberately chosen to interview people of different ages and hearing their various stories reminds us of several important factors. Firstly, the issue of who is 'low skilled'. The older interviewees in the lower skilled category have a secondary-level education gained during their adult life. When they entered the labour market they only had compulsory schooling or limited qualifications, this was very common at that time. Today, very few people enter the labour market with only a basic education. Furthermore, the individuals in the lower skilled category gained secondary qualifications and more as adults. Secondly, several of the older interviewees made career changes as adults, including studying to achieve the compulsory school qualifications that they did not gain in their youth. Some also studied either theoretical or vocational education to secondary level with public financial support. Today, the institutional framework around retraining with public financial support is slightly different, and a more common type of retraining now is in the shape of various specific courses as part of labour market measures. Finally, the labour market context in Gotland and nationally has also varied considerably over the years of the interviewees' lives. We are mainly describing the current context and economy, but one has to remember that what e.g. was a 'skills shortage' in Gotland in the mid 1990s and thus a reason to move to the island, may now be skills with limited demand.

### *Moving to Gotland – the Importance of Family Links*

The ten life stories that we have surveyed provide fascinating glimpses of how people make a living in Gotland. They certainly provide a wide range of experiences but also a number of aspects that several of these people share with

Table 5.2 Interviewees in Gotland

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**Younger lower skilled with transition history**

- Woman currently working on a vegetable farm, previously spells of unemployment, training courses, sick leaves and temporary jobs
- Man currently unemployed, many years of dairy work, training courses

**Older lower skilled with transition history**

- Man currently unemployed, experience from work in manufacturing, studies at secondary level, many years in administration and management
- Woman currently self-employed in craft sector based on work in related occupation, secondary education and career change, sick leave

**Key professional**

- Highly skilled woman in occupation with shortages in Gotland, newcomer
- Man with specialised skills moved to Gotland in mid 1990s when there was a shortage of labour in this profession

**Locals who have used their networks to find work**

- Man currently team leader in nature conservation work, long experience of work in commerce, training course, no unemployment
- Woman currently self employed in management consulting, experience of work in related and unrelated fields, training and higher education

**Newcomer who has started a business to make a living**

- Woman currently self employed in artisan food production, experience of work in commerce, education and career change, many years work in the care sector

**Newcomer who works in a company that is not dependent on the local context**

- Man with higher education and several years of work in his profession, distance worker
- 

each other and also reflect what has been revealed in the key interviews and in the literature more generally. An example of this is the six people that were not born in Gotland had become 'Gotlanders' mainly for family reasons. Four of these interviewees had spouses from Gotland. This factor, in combination with job opportunities and often a stress on the quality of life factor in Gotland were important for their decisions to move to Gotland. Had the family connection not been there, then they would probably not have moved to the island. The fifth incomer had, together with their family, positive experiences of Gotland from several visits during the summer. The job opportunity and quality of life factors were crucial in this case as well. Only in one case was Gotland a new experience and the move was due to a job opportunity for the husband. He had never been to the island, but called from the interview and said: 'It is beautiful here!' The family chose Gotland instead of another location on the mainland where the husband also had a job offer.

*The Proximity to Stockholm Is an Asset*

Many interviewees, both those born in Gotland and the incomers, stress the quality of life factors with living on Gotland. Those factors include the easy access to the countryside, lower pace of life than in the Stockholm area, good environment for bringing up children, and, despite recent increases in the house prices particularly in Visby, the potential to get more space for the money than in the Stockholm region. The relative proximity to Stockholm and to the Mälars region is also mentioned in this context.

It makes it possible to keep in touch with friends and family, while affording comparatively easy access to city life including the largest labour market in the country. This latter factor is an advantage particularly for those living in Visby or its immediate surroundings. One of the interviewees is a distance worker who travels one or two days per week to the office in Stockholm but otherwise works from home. This is facilitated through the good flight links to Bromma, and the normal door-to-door travel time for this person is 1 hour 15 minutes. A crucial aspect here is that the employer pays for the annual travel pass with the airline. This interviewee said: 'I think that distance working is going to be more common in Visby because you get the advantage of living in a small place, but these types of jobs are not very common here.'

For distance working to be an option, communications with the mainland and particularly the Stockholm region are crucial. In addition, a good quality IT infrastructure on the island is also important and therefore the expansion of broadband plays a role. One of our interviewees had a spouse who was dependent on broadband expansion and was, at the time of interview, disappointed because this expansion had not developed as fast as initially planned, making it more difficult for the whole household to make a living.

*Trade-Offs between Quality of Life Factors, Work Content and Pay*

A common comment from the interviewees and also other informants is that there is a certain trade off between the 'quality of life' factors that living in Gotland brings and

salary levels, which are normally lower than on the mainland. In addition, there is the risk of not being able to work in exactly the field that one is trained for. One of the interviewees put it like this: 'If you wish to stay in Gotland you have to accept that you may not get exactly the job that you would like. You have to compromise a bit regarding your work content and your pay.'

### *Opportunities to Retrain Are Important for Transitions*

Another interesting observation is that so many of the interviewees had gone through a number of different transitions in their working life and income history. Almost all interviewees had had spells of education and training, in some cases moving to completely new careers. There were several examples among the older interviewees of them deciding to study as adults in order to gain new qualifications and other types of jobs. This had happened either on Gotland or on the mainland prior to moving to the island. It was not necessarily unemployment or the risk of becoming unemployed that triggered these decisions, but often simply that the interviewee was bored with their current job and wanted a change. Training and education relates to human capital, a theme that is discussed further in chapter 2.

Many of the interviewees have also had periods of training or education as part of labour market measures. This includes training to achieve basic, generic qualifications such as the final grades of primary or secondary school as well as vocational courses or courses in computing and IT skills. Several interviewees had received these types of training courses due to unemployment following business closures or reorganisation. There was also one interviewee who for over ten years had been involved in many different training courses between spells of temporary jobs and sick leaves. This interviewee had, at the time of the interview, a full time job that was supported by labour market measures. This person illustrates an income history that is not uncommon. Particularly among the older members of the labour force with limited skills, it seems to be very difficult to find long-term employment on the regular labour market in Gotland.

### *Entrepreneurs Start Their Own Businesses*

Another category of transitions are those that have become self-employed. Entrepreneurship and self-employment is also dealt with in chapters 2 and 9. The three self-employed interviewees in this situation, all women, had fascinating life stories and impressive creativity. They were all aged 50 or over and had started their companies after their mid forties. These three entrepreneurs were running businesses in different trades and had a wide range of qualifications and working experiences. One thing that these life stories had in common was the creativity of finding ways of making a living in different household circumstances and with

different opportunities where they lived, in Gotland and in other places. All three had periods of work, studying, training courses, and staying at home with young children. In many cases, they had combined several of these activities at the same time. The drive to find solutions and courage to set out on completely new paths was striking. They all mentioned that there have been institutional factors aiding them such as the ability to study as adults, and support in the shape of business start-up courses and coaching by ALMI. Family and personal contacts are also mentioned, as well as committed and understanding desk officers in the employment services. Or to quote one of them: 'When I presented my business idea, that was starting a company doing something that I had no training in, the employment officer said – Go for it! Together we designed a package where I could get work practice in a company on the mainland and also practical help with the setting up of the new machinery in my own company.'

### *The Importance of Personal Networks and Committed Desk Officers*

Personal contacts and committed desk officers are also mentioned by many of the other interviewees. Several had received their first jobs through family contacts. Personal and professional contacts had also been important for some later transitions in the income systems. This is examples of social networks and social capital that is described in chapter 2. One interviewee that became unemployed after an episode of company restructuring was out of work for four months but got a job offer through his personal contacts. When this temporary job ended, he got another one through a different contact. It is not only in insular areas that people get jobs through their contacts, but on a small labour market where both demand and supply are limited, personal knowledge may play an important role. Here the employer may have to employ somebody that may not have exactly the desired qualifications and experience. In that situation, the recommendation through a personal network or the personal knowledge of someone may be crucial.

The committed and knowledgeable desk officer was mentioned in several life stories. Knowledgeable includes knowing about openings and opportunities on the island, something that is easier on a small labour market. One interviewee had worked for almost 30 years in the same company but was disappointed with the job offered to them in light of the latest reorganisation, and thus quit. Financed by his redundancy package he took a computing course and was looking for a job more in line with his personal interests of the outdoor life. He discussed his opportunities with the desk officer at the Employment Office. She knew of an opening that matched and thus contacted the employer right away. The interview was quickly arranged and the person started work the following week.

# Concluding Discussion on the Income System of Gotland

Based on the combination of structural and individual perspectives on the insular income system in Gotland it is possible to conclude with some indications of the facilitating factors and barriers in the system. Which factors contribute to a sustainable income system and which provide obstacles for such a system in Gotland? Together with a brief discussion of these factors, some soft policy recommendations are provided. These aim to point out possible policy orientations to promote a sustainable income system, i.e. a system where transitions to and from the labour market are as smooth as possible.

Many of the current policy orientations and initiatives in Gotland regarding regional development strategies and labour market policies contribute towards a sustainable income system. These include the partnership working and collaboration between key actors and agencies, various ways of stimulating entrepreneurship and business 'start ups' and the drive to improve the share of young Gotlanders that continue onto higher education.

## Permissive Factors for Making a Living in Gotland

Gotland's small size is an advantage in relation to making a living in Gotland, although its size also brings disadvantages, of which more below. The limited size and population makes it easier for the Gotlanders to be made aware of job opportunities. This is an advantage both for those looking for employment and for employers needing new staff. It is also an advantage for the desk officers working in the employment services and related agencies. The small labour market also brings with it a relative continuity in terms of staffing. Many desk officers have worked there for several years and get to know others in the income system, something that facilitates collaboration and the easy exchange of information. Formalised cooperation also exists between different agencies in the income system on the island. This joint working between actors and agencies including collaboration between individual desk officers is a policy orientation that should continue.

The supply of training and education has improved in Gotland, not least in terms of the establishment of Gotland University. With time, this may prove to be an important factor in the attempts to increase the school to university transition rates on the island. Other training providers also exist while the opportunity for people to 'up skill' and re-train are of great importance to individuals that are made redundant, or simply want to make a career change. The University College is also an important factor in the restructuring of the Gotland economy with new types of job opportunities and also spin offs emerging through the entrepreneurial work of staff and students.

An important actor in terms of career changes and of capitalising on ideas is ALMI, which supports business

start-ups and the development of already existing companies. Concrete initiatives such as running business start-up courses together with the Employment Office and participating in the Gotland Interactive Park partnership are examples that can contribute positively to the income system in Gotland. A good policy orientation to continue is to support entrepreneurs and business 'start ups' particularly in relation to growing the businesses.

Another permissive factor for making a living in Gotland is the many types of public investments in infrastructure, communications, and IT. The ferry service to Gotland gains from significant levels of public support while investments in broadband technology on the island have also been made. A particular type of public investment is the state jobs that are located in Gotland as compensation for job losses in both the public and private sectors. These bring job opportunities both directly and indirectly. Linked to the communication factor is the advantage of proximity to the Stockholm region. This provides an opportunity as a large market for Gotland produce and for Gotland as a tourist destination while also giving some Gotlanders access to the country's largest labour market through opportunities for distance working. Investment in communication and IT including in broadband and public transport on the island will continue to be an important policy orientation for the Gotland economy and labour market.

Finally, it is worth mentioning the 'softer' factors such as the image and brand of Gotland. Most Swedes can put Gotland on the map and know of Visby. In general, people have a positive image of the island and this is important for the tourism sector. The many visitors to the island bring income opportunities. The positive image of the island has the potential to be used more in the marketing of island produce, something that various projects are currently addressing. The positive brand of Gotland may, over time, contribute to larger markets for Gotland produce, and thereby deliver greater income opportunities to the island.

## Obstacles to Gaining a Sustainable Income

One of the downsides with the smallness of the island is that the labour market is limited. Individuals may find it difficult to find a job matching their skills and qualifications. The fact that many people know each other also has its disadvantages. One interviewee highlighted this when he said: 'People will not give me a second chance. I know that I screwed up in my previous job, but it was a one-off thing! Everyone knows of my mistake and now I can't get a new job.'

A specific obstacle to people in Gotland gaining an income is their lack of skills and qualifications. The comparatively low educational level of the population is a ma-

job hindrance since fewer and fewer jobs are available that do not require qualifications of some kind or another. There is a polarisation of the labour force in Gotland, where the low skilled run the risk of moving between different types of training, spells of temporary work and unemployment, but ultimately of not gaining a foothold on the labour market itself. At the same time, those with higher skills and qualifications that have been made redundant in relation to defence and other industry related closures tend to be able to better fend for themselves on the labour market. It is important to continue combating marginalisation and exclusion from the labour market in a comprehensive way.

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Figure 6.1 Kainuu region.



# 6. Challenges to Income Systems in Kainuu

“Job opportunities surround us, it is only necessary to watch things more carefully” claims one of the interviewees. This chapter begins with a short introduction to the Kainuu region, followed by an overview of current trends in respect of both the labour market and labour force in the area. The social institutions and policy frameworks of the Kainuu income system will then be dealt with followed

by a discussion of these matters based on a number of biographic interviews conducted with people in the region. The chapter concludes with a discussion of the Kainuu income system drawing from both the contextual part of the chapter and the life stories of the interviewees. The conclusions also contain some ‘soft’ policy recommendations.

## Kainuu – The region Where East and West Meet

Kainuu region is located in the centre of mainland Finland, on its Eastern border with Russia (see figure 6.1). The total surface area of Kainuu region is 24,451 km<sup>2</sup>. Kainuu region has two cities and eight municipalities, comprising 150 villages. Kainuu has a continental climate, with short warm summers and a 70–80 cm covering of snow during average winters.

The region has a heritage that includes traces of both the periods of Swedish and Russian ascendancy. The Swedish Count Per Brahe, for example, founded Kajaani Castle, in 1651, and a former stable building commissioned by the Russian Tsar Alexander I, in 1819, now holds a museum. ([www.kainuu.fi](http://www.kainuu.fi)) These buildings are physical examples of the region as a place where East and West meet.

### Communications

The Kainuu region is connected to the rest of Finland through airlines, railroads, and road systems. Kajaani airport hosts 2–3 daily flights to Helsinki, with a flying time of 1 hour. The airports of Oulu, Kuopio and Kuusamo are about 2–2.5 hours driving distance and are used by some tourists and business travellers to connect with Kainuu. The Oulu-Kajaani railway route connects the region with the western part of Finland, while the Kajaani-Kuopio-Helsinki route connects with the southern part of the country. The regional network of roads ensures the maintenance of connections between the municipalities and villages of the region. Travel time (by car) from the north-eastern part of the region to the regional centre can be upwards of 2–3 hours, and even longer during the winter (see figure 6.2 on next page).

### Demography – Population Changes

The population is dispersed, with the isolation of local labour markets in the rural countryside the result both of long distances and the difficulty of access due to poor weather conditions. The population density of the region is one of the lowest in Europe, with less than 4 persons per km<sup>2</sup>. Since 1960, the constant trend of out migration has generated a loss of population of some 1,000–1,500 inhabitants per year. Currently, the population of Kainuu is 85,965 inhabitants. The characteristics of the region’s population base dramatically influence the labour market.

Because of the strong pressures of depopulation, the age structure has become increasingly distorted, while future trends will continue to be negative in this respect unless basic changes to the historic pattern occur. The demographic dynamics relating to that proportion of the population of working age is however particularly challenging. The forecast moving towards 2020 indicates that there will be a serious shortage of workers, while a large segment of the population will by then be retired on a pension. (Statistics Finland, Population forecast September 2004) This challenge needs to be taken into account as the pre-eminent factor affecting the future sustainability of income systems.

The declining population trend has reached alarming levels (see figure 6.3 on next page). The main cause here is the combination of low and decreasing birth rates and negative net migration. The changes are slightly different for each locality, the decline being more acute in some, and slower in others. The combination of demographic changes has had a significant impact on population dynamics in the area. In recent years, population decline has slowed, mainly due to growing in-migration. The number

Figure 6.2 Driving times in the Kainuu area.

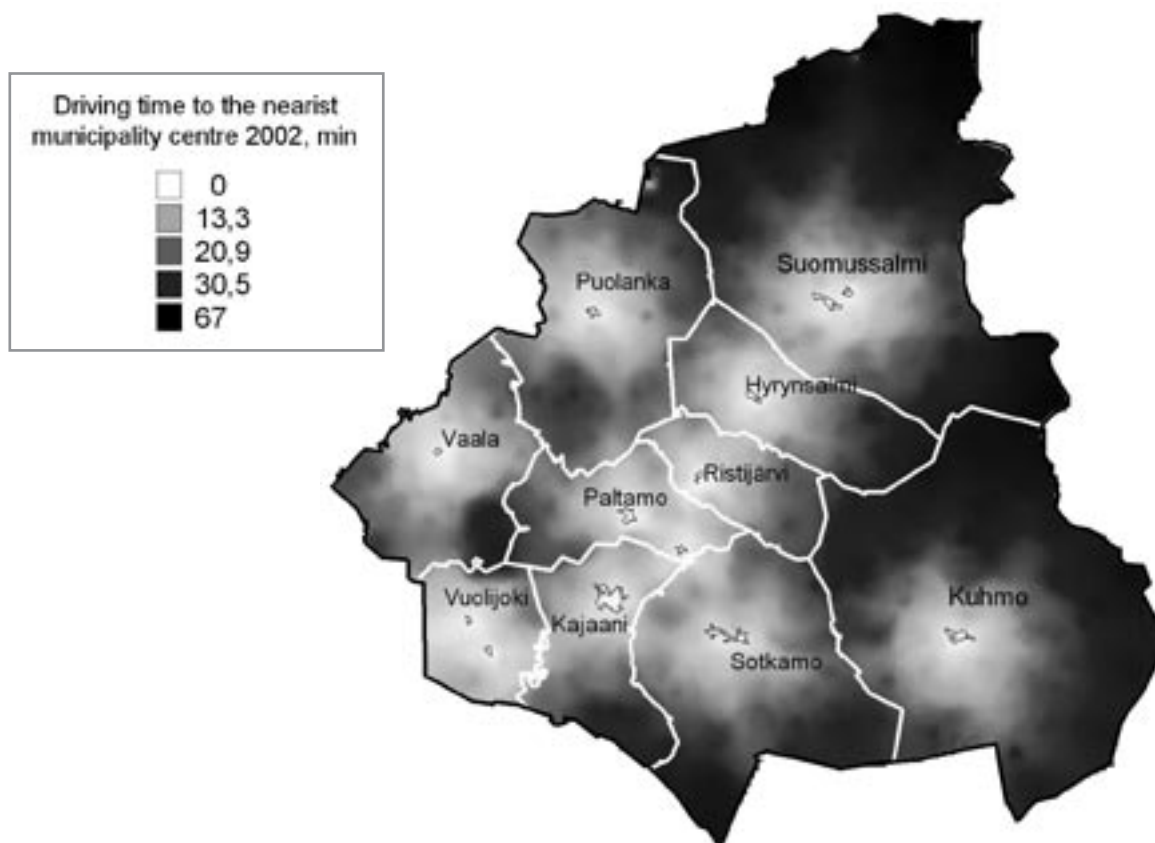
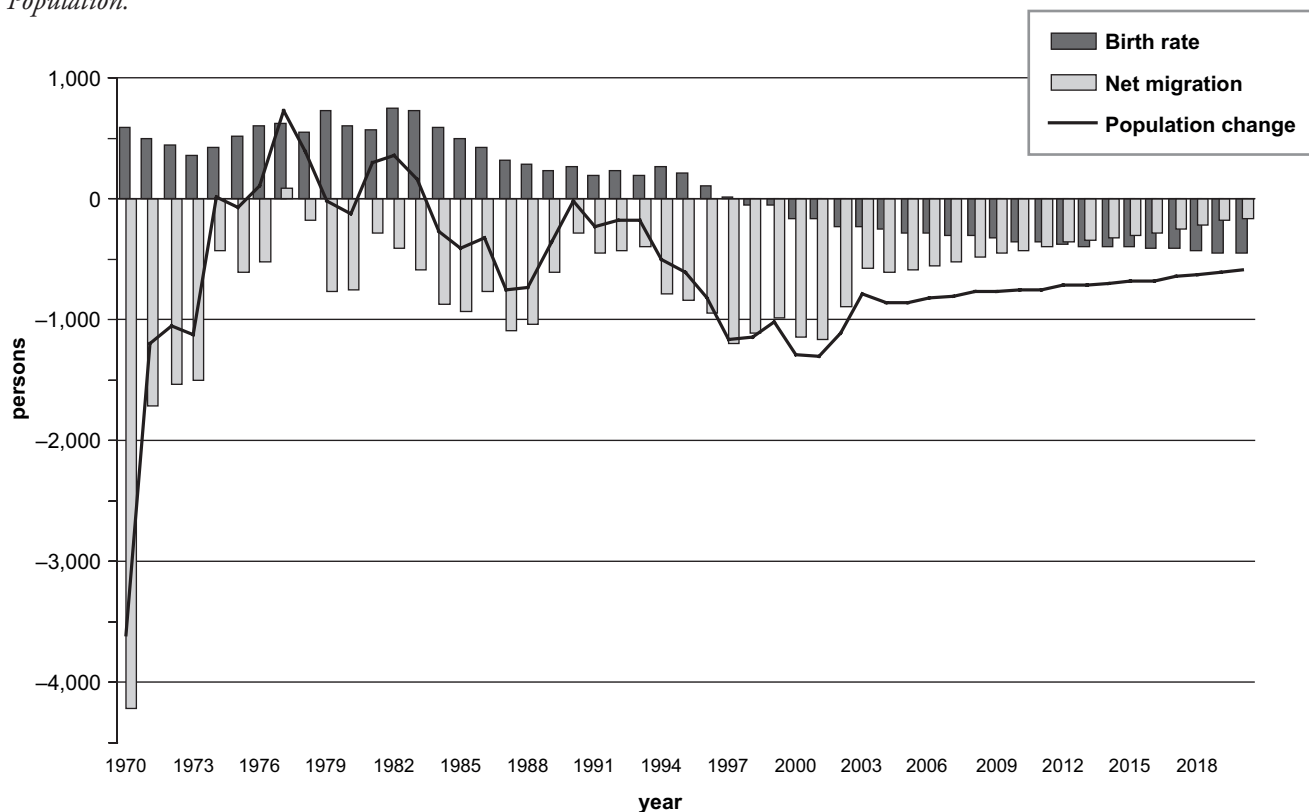


Figure 6.3 Population changes in the Kainuu region 1970–2003 and forecast 2004–2020. Data source: Statistics Finland, Population.





of foreigners moving to Kainuu increased from 614 in 2000, to 985 in 2004.<sup>1</sup>

The concentration of population in the urban and built-up areas seems likely to be a continuing future trend, making in a way even more problematic the situation of

those choosing to live in the more remote areas, and as such, isolating them even further from service provision. Built-up areas, i.e. those with more than 200 inhabitants/km<sup>2</sup>, are identified as service providers and thus tend to be more attractive in population terms.<sup>2</sup>

## Structural Characteristics of the Local Labour Market

### The Labour Market – Can the Service Sector Provide a Potential Solution to the Region's Employment Problems?

The public sector is more important in Kainuu than in Finland as a whole, indeed, it is a source of income. The age structure of employees in the public sector is however ageing. In the SMEs, the age structure is better than in the public sector, though employees in this sector are also ageing. The number of new business start-ups *per capita* in Kainuu is the lowest in Finland, and this has been the case for some time.

Moreover, the trends in relation to Kainuu seem to be more pronounced than in any other part of Finland, and they certainly outperform many national averages. The ten localities of Kainuu region register a decreasing population with the exception of the small municipality of Vuolijoki. The labour force participation rate is lower than the national average and only the regional centre of Kajaani and the rural municipalities of Sotkamo and Vuolijoki, in the vicinity of Kajaani, have higher values than the regional average. All other municipalities register a low level of labour force participation. The unemployment rate is also severe across the region. In 2003, the unemployment rate was 20%, almost twice the national average.

### Industrial Structural Change; Firm Size Structure

The period between the years 1999 and 2003 has been chosen as reference point for a comparison of the structural changes occurring across the region in the economy. During this period, mining and quarrying, social services and personal services register a growth in employment that is higher in Kainuu than the national average. Some sectors are declining both in Kainuu and nationally. Among those sectors, the rate of loss is particularly large in Kainuu in manufacturing, electricity, gas and water supply, public administration and defence. There are also sectors where employment is growing nationally but declining in Kainuu, e.g. construction, transport, storage and communications and the hotel and restaurant sector. According to the expert interviews, the labour market forecast sees a continuing decline in the number of jobs in agriculture, forestry and manufacturing while the service sector, particularly health and social services will continue to grow.

There is a net growth of new companies in the Kainuu region, despite this; the overall economic performance of Kainuu did not improve. The region's percentage share of national GDP (where a score of 100% equates to the national average) dropped from 69.4% in 1999 to 67.3% in 2003 (Statistics Finland, National Accounts).

Only 16% of the region's entrepreneurs have a successor in the family, while 25% of entrepreneurs plan to close their business on retrieval. It is important to note that in Finland, most private companies are family businesses, and that most of them are small and medium enterprises. 75% of the people employed by small and medium enterprises in Finland work in family businesses. Family businesses employ about 50–60% of all employees in the country (The Finnish Family Firms Association). The figures seem to be somewhat typical for industrialised world with the exception of the UK and the USA, as pointed out by Organisation for Economic Co-operation (Becht 2003). As noted by *Family Business Network Finland*, "family businesses are the backbone and the motor of the Finnish economy."<sup>3</sup> In Kainuu, a large percentage of those in employment work in this type of family business. In this context, not finding a successor to run the business, from either within or beyond the family, has an important cumulative effect on the nature of structural economic change, and in particular on the private/public labour market ratio of any region. The situation is even more acute in Kainuu since the percentage of entrepreneurs is higher than that at the national level. 13.3% of the active work force in the region are entrepreneurs, (i.e. self-employed or a family member working without salary for their family business), as compared to the national average of 10.7%. The share of entrepreneurs according to this definition is particularly high among men in Kainuu. 17.3% of men in the active work force are self-employed or work as an un-paid worker in a family business. The national average is 13.6%.

<sup>1</sup>Regional statistics, 23.01.2006.

<sup>2</sup>Keränen, Heikki (2004). Maaseudun aluerakenteen muutos. (Changes of rural areas). University of Oulu, REDEC Kajaani, Working Papers 48.

<sup>3</sup>See Finnish version at The Finnish Family Firms Association website.

## Labour Force

A detailed analysis of the labour market characteristics in the region reveals that the share of the workforce in employment is still considerably lower than that of the national average. The employment rate for women is slightly higher in Kainuu than that for men. In terms of the national average, the opposite situation prevails. The highest employment rates for women are found in Kajaani, Sotkamo, and Vaala. The most significant future change to the labour market relates to the large age cohort born after World War II (the 'baby boomers'), which will retire in the next few years. This will create a shortage of entrepreneurs, educated employees, and basic level educated employees. Expert interviewees forecast the coming sectoral trends as follows; agriculture, forestry and manufacturing industry will continue to decline while the growth sectors will continue to be the service sectors, especially health and social care services.

### *Educational Levels: Lack of Educated People*

The average educational level in the Kainuu region is the lowest in Finland. Most of the people leaving the region are young and educated. Gender analyses do however indicate a somewhat better situation for women in terms of education and labour market insertion in Kainuu region. A larger percent of women in the region have a higher education, while the unemployment rate affects men to a greater extent than women. The labour force in Kainuu however remains less educated than the national average. While the national average, in terms of secondary education levels, is achieved, the share entering tertiary education, and in particular, those going onto the post-graduate level, are below the national average. Expert interviews revealed that the students' priorities are oriented towards culture/media, hairdressing, and social and health care fields. These fields are, currently however, underrepresented on the educational market in Kainuu.

### *Commuting*

The region's infrastructure characteristics and labour mobility levels are portrayed by the physical distances and the actual access to relevant local labour markets, which gives us an idea of the commuting range in Kainuu. In terms of physical distances and access (driving time), Kainuu is confronted by long distances and limited access to its main

centres. Consequently, the labour market is fragmented and there are numerous commuting areas, which function independently without being able to develop into an integrated labour market. The Eastern border with Russia also severely limits options in the area. The long distances between residencies and potential labour markets are even harder to cover during the winter months, when some country roads become impossible to use. Commuting areas are therefore limited by space and weather conditions.

To conclude, we could say that the problematic large-scale changes in Kainuu region are caused by interconnected factors: the low density of the population, long distances, distorted age structures, and the lack of educated people, as well as by the impending retirement of the large age group of 'baby boomers'.

### *Quasi Market Solutions, Informal Income*

In order to gain some insight into the notoriously difficult area of the 'grey economy', short expert interviews were conducted during March 2005. The following comments summarise the main conclusions of these interviews. According to the experts consulted, it seems that an alternative complementary means to reduce expenses or to supplement incomes is to provide various services in return for other services or for symbolic reward in monetary terms. In the countryside, the bartering of services is common, and services exchanged include e.g. snow clearing, vehicle repair, and making firewood. In urban areas, the nature of the services exchanged is somewhat different, and includes house cleaning, accountancy, and child minding. Hunting, fishing, and picking berries are also activities whose results can be bartered. Even though this form of neighbourhood help is quite extensive, the value of financial transfers is very low. The inflexibly designed unemployment system does not leave much room for registering 3 hours or one day of work. Such registration would result in considerable paperwork, delays in unemployment payments and extra-taxation. However, reducing taxes would not help to create more part-time jobs in the area, as tax revenues support local budgets, mainly rural ones, who would then need to reduce their services and to reduce their staff, thus fuelling a 'lose-lose' situation.

# Social, Institutional and Policy Frameworks

## Regional and Rural Policy Programmes Implemented

There are many important actors and measures functioning in the Kainuu area. Employment agency offices, Employment and Economic Development Centres, and Expertise Centres<sup>4</sup> are among the best examples of what we could term 'important players' in the area who influence the employment system in Kainuu region. The measures and programmes currently being implemented in the area comprise: the Objective 1 programme, Leader+, and INTERREG programmes, including those targeting cross-border co-operation with Russia. Recent institutional changes took place in Kainuu region with the purpose of stimulating regional and local development and improving local labour markets: The Kajaani University Consortium started its activities in 2004 and the Joint Authority of Kainuu, in 2005.

The major administrative development in regional terms is the self-government experiment which commenced in 2005. An allocation of the services by type on the regional, district, and local level has been entered into. The task of the elected board is to continue this work and to plan a strategy for the period 2005–2008, while also organising the activities of each social welfare and health care sector.

It is the first time, in the history of Finland that autonomous status has been given to a mainland region. It is a part of a pilot scheme that runs from 1<sup>st</sup> of January 2005 until the 31<sup>st</sup> of December 2012. Health care and social services, as well as vocational and upper secondary education and continuous adult education are now the responsibility of the self-governing authorities in Kainuu. The components of the new Joint Authority of Kainuu Region are: the municipal social and healthcare systems of Kainuu, special care services including the Central Hospital of Kainuu, vocational and adult vocation education, and the Regional Council. The Joint Authority of Kainuu Region is the new name of the organisation.

Three principles steer the experiment: regional democracy, increased responsibility given to the region for its own development (decision making has been devolved from the national to the regional level) with the provision of certain basic services now taking place at the regional level. The aims of the self-government experiment are as follows:

<sup>4</sup>Employment and Economic Development Centres are mainly Government representatives in the region, while Expertise Centres are independent bodies, usually with strong ties to a municipality, the development of which is initially funded by the Employment and Economic Development Centres. For more details see Employment and Economic Development Centre, [www.te-keskus.fi](http://www.te-keskus.fi) and Centre of Expertise Programme, [www.oske.net](http://www.oske.net)

- To ensure health care, social services and educational services for all inhabitants of the region
- To bring the guidance of regional state administration and of business subsidies into one regional democratic organization
- To better focus regional development activities
- To initiate larger, more effective projects
- To adopt new and better practices
- To create new enterprises and jobs.<sup>5</sup>

There is strong interest from a governmental point of view in boosting co-operation between municipalities, and in ensuring that they become more efficient, while in the end decreasing the total number of the municipalities. Economically viable solutions are thus being sought, while the future amalgamation of some municipalities is not excluded if they can be proved to be both viable and efficient.

Kajaani University Consortium is one of six such consortiums that emerged in Finland in 2004. According to its strategy, it is hoped that the Kajaani University Consortium can become an important actor in regional development terms and a nationally respected and highly profiled research, education and development centre acting as part of the regional innovation system. The aim here is to make the consortium an attractive university unit for students and international researchers. Already, the consortium has contributed to the development of new products and firms. Kajaani University Consortium is co-ordinated by the University of Oulu. The universities of Joensuu, Kuopio, Jyväskylä and Lapland are also members of the consortium, which includes all of the university units from the Kainuu region. The mission of the Kajaani University Consortium is to improve the knowledge-level of the area, and its well-being, competitiveness and university culture. (Kajaani University Consortium, University of Oulu)

Research in the Kajaani University Consortium is focused on Educational Sciences, Information Processing, Measurement, Biotechnology, Sports Technology, and Regional and evaluation research. In 2004, the consortium had 230 employees and 800 degrees were awarded. The consortium received 0.8 million euros from the municipalities in the region and 0.4 million euros from local companies, while the EU contributed some 6 millions euros worth of finance for various projects (Kajaani University Consortium 2004 p.1)

Expertise Centres are established in order to improve local and regional competencies, according to the regional policy directions provided by the Finnish Government. In Kainuu, there are four such expertise centres, Seniorpolis,

<sup>5</sup>Self-government experiment in Kainuu web-pages, [www.kainuu.fi](http://www.kainuu.fi)

Virtuosi, Measurepolis, and Snowpolis, the latter two being connected.

Seniorpolis builds on the idea that senior citizens could be seen as a resource and, in providing a variety of specific services to the elderly, it aims to address the unemployment issue by operating with three categories of retired persons while simultaneously seeking to customise services for each of these groups. The project combines housing, learning, care and relaxation, “to develop a uniform and extensive service selection to satisfy the needs and requirements of senior citizens” (Expertise centre Seniorpolis p.4). In 2004, the construction of the senior village began, while basic service provision commenced in 2005.

The Kuhmo International Centre of Chamber Music was included in the national Centre of Expertise Programme 1999–2006. The basis of the Expertise Centre *Virtuosi* is connected to the existence of the renowned Kuhmo Chamber Music Festival, and to the diverse skills and traditions that have grown up in connection with it over the last 30 years. *Measurepolis* is a cluster of measurement technology enterprises in Kajaani. Its aim is to promote opportunities for hi-tech companies by offering contacts with field-specific research and training, and by developing cooperation between them. Measurepolis houses the University of Oulu’s Measurement and Sensor Laboratory, Kajaani Technology Centre, the Technical Research Centre of Finland, Kajaani Polytechnic, Snowpolis-Vuokatti and other measurement technology enterprises (Expertise centre Measurepolis).

According to official website of *Snowpolis*, it is a technology park that ‘specializes in wellness, sport and all-year winter sports and leisure related activities.’ Its main aim is to ‘found, enlarge, and develop small and medium-sized companies.’ The Competence and Firms Centre is located in the Sotkamo-Vuokatti-Kajaani-region. Functionally, the technology park is a meeting point for companies, scientific research, development centres, and education. The Technology Park offers various kinds of testing; testing in cold conditions, testing for the electronics- and programming industry, as well as businesses based on biotechnology. Snowpolis combines entrepreneurial pursuits with university-level competence in sports technology, nutrition, wellness<sup>6</sup> technology and snow expertise. (Expertise centre Snowpolis) The main goal for Snowpolis is to create 20 companies with 300 jobs by 2007. According to the managing director, 15 companies and 50 new jobs had been created by the end of 2005.

EU funds are available in various different contexts in Kainuu; programme activities are also complemented by Community initiative programmes, (e.g. INTERREG, Leader+, URBAN II and Equal). The Eastern Finland Objective 1 Programme (2000–2006) allocates funds at the

<sup>6</sup>Wellness technology is defined as technology assuring the wellbeing of the people.

regional level. The Kainuu region receives 84 million euros from the Objective 1 Programme. According to the mid term evaluation of the Objective 1 programme, “support for entrepreneurial activities in Kainuu constitutes (notwithstanding some favourable features) the biggest challenge for the Eastern Finland Objective 1 Programme” (Eastern Finland Objective 1 Programme p. 11) The evaluation thus recommends an increase in the input of resources to this region.

### *Labour Market Policy*

There are many institutions playing an important role in labour market terms in the Kainuu region. In this respect, the Employment and Economic Development Centre holds an important function, while the Ministries of Trade and Industry, Agriculture and Forestry, and Labour have jointly combined their regional forces in the Employment and Economic Development Centres (T&E Centre). Fifteen centres countrywide provide a comprehensive range of advisory and development services for businesses, entrepreneurs, and private individuals. The centres’ roles include,

- supporting and advising small and medium-sized enterprises
- promoting technological development in enterprises and assisting in matters associated with export activities and internationalisation
- implementing regional labour policies
- planning and organising adult training within the official labour policy framework
- promoting and developing farming and rural enterprise activities
- developing the fisheries sector
- influencing and participating in regional development in general.

The technological expertise of the National Technology Agency of Finland (Tekes) is also at local disposal, and is housed under the same roof. The Employment and Economic Development Centre is a significant specialist and a contributor of EU funding.

Kainuu has its own T&E centre, the Economic and Employment Centre of Kainuu. The centre provides financial support, expert advice, training and internationalisation services. The Economic and Employment Centre of Kainuu is able to contribute to SME development and investment projects. EU financing is frequently involved. Other actors also finance such opportunities, e.g. Finnvera<sup>7</sup>, Sitra<sup>8</sup> and capital investment trusts.

<sup>7</sup>Finnvera is a publicly supported funding company providing loans, guarantees, and financial services.(www.finnvera.fi)

<sup>8</sup>Sitra (The Finnish National Fund for Research and Development) is an independent public foundation under the supervision of the Finnish Parliament. (www.sitra.fi)

It is obvious that, among the profiled services, ProStart and Design Start are more closely associated with consultancy, while training and consultancy are provided largely in relation to financial services provided.

The Ministry of Labour provides employment agency services through their offices in seven different locations

across Kainuu. The services offered include: help with job-seeking, labour market training, vocational guidance and career planning, educational and vocational information services, vocational rehabilitation, self-employment, 'ways out of unemployment', and financial aid and grants.

## The Kainuu Income System – Life Story Interviews

### Lessons Learned from the Biographical Working Life Stories

To identify the sustainable and less sustainable income systems of the region, and to better understand both past and potential future developments, a combination of methods was used. Twelve life story interviews were conducted in Kainuu, during April 2005. The business start-up survey presented in chapter 9 was conducted during the period February to April 2005, with some of the findings of that survey being incorporated into the analysis here. A supplementary set of open-ended questions was addressed to those entrepreneurs in respect of the most important institutional change in the region, namely the issue of self-government.

The life story interviewees belong to different age and professional groups as discussed in chapter 1. A summary of their characteristics is presented in table 6.1.

### Returning Migrants – a Potential Riposte to Kainuu's Problems

A common feature of the interviewees is that all have experienced many transitions, the spatial mobility being caused by educational, personal or job opportunities and

constraints. The in-coming migrants usually have personal or professional ties to the area. One of the interviewees accepted a job proposal in the rural municipality of Sotkamo because of a close friend who described in beautiful colours the nature and surroundings of the locality. The desire for a different lifestyle was a decisive cause for one of the return migrants. The interviewee concerned left Kainuu in childhood due to their father's unemployment. Two other return migrants illustrate the common pattern of leaving Kainuu to study or to find job opportunities elsewhere. The most important reasons for returning relate to a combination of factors such as new job opportunities, lifestyle preferences and in some cases inherited real estate in Kainuu.

Most of the interviewees experienced many kinds of jobs and professions during their working lives. Many have also studied, either in parallel with work, or in separate periods between jobs. Vocational education in the commercial field seems to be one of the traditional alternatives, especially for women. Personal interests or ambitions may also determine a change of career pursued through education. One of the interviewee said: "After the courses, my father thought I already got what I needed but the situa-

Table 6.1 Life story interviewees.

Category	Men	Women
1. Young unskilled with transition history	39 year old painter not born in Kainuu	37 year old nurse born in Kainuu
2. Elderly unskilled with transition history	66 year old retired insurance agent not born in Kainuu	73 year old retired midwife not born in Kainuu
3. Key professionals	45 year old public sector manager born in Kainuu	42 year old rural development project co-ordinator born in Kainuu
4. Born locals who have used networks to find work	49 year old working in the voluntary sector	49 year old, currently unemployed
5. Newcomer who has started a business with mainly local/regional market	30 year old entrepreneur/student/project manager	40 year old entrepreneur
6. Interviewee who works in a company/organisation that is not dependant on the local/regional context	37 year old software designer born in Kainuu	
7. Newcomer with transition experience	31 year old immigrant student, former entrepreneur	

tion was quite the opposite. I always wanted to be a doctor and the midwife training opportunity in Oulu was close enough to my dream". Financial and moral support from their parents in early adulthood contributes to young adults pursuing further vocational or higher education. The same kind of assistance might be provided later on in the life-cycle by the spouses of the interviewees who decided to interrupt their jobs for study purposes. In the past, when student loans were not available, financial support from parents was crucial. For one of the interviewees we were told that the father borrowed money from his brother to support the education of his daughter. People that have changed either employers or occupations during their working life often indicate the active orientation towards the labour market, the desire to access a job and the tendency to adapt to the scarcity of jobs in some sectors. Among the interviewees with a history of unemployment, there were several examples of one spouse holding down a job while the other was taking care of the children or was in full-time education. Entrepreneurship is an active response to the various constraints of the labour market. Starting a firm as an active alternative to unemployment because of "a need to do something" and since "there was nothing else to do" reflects an aptitude for risk taking and an active attitude among some of the interviewees.

There were several cases where local identity and roots were important return migration factors. This was highlighted both in the biography interviews and in the expert interviews in the study. One of the return migrants that had lived elsewhere during their university years was now back in the region and even in their home locality. He said: "I always wanted to stay where my roots are". There are also examples of how the issue of local identity and roots act as an anchor preventing the skilled experts of the region to refuse potentially good job offers received from other regions of Finland. One of the interviewees had such an experience but stated: "The love for my own region and the feeling for my roots are more important than future prosperous jobs".

Social networks are very important to all of the respondents, and the importance of this factor is a combination of the kinship/acquaintances network and professional networks in the Kainuu region. It is common that the first job experience is found through informal networks of relatives or acquaintances and more rarely by relying on official channels. For first time job seekers with weak ties to other social networks, and particularly in relation to their professional networks, the Employment Office seems to have provided a fairly good service. However, it is very important that those interested in employment are very active in their search. One interview phrased it like this: "Job opportunities are surrounding us, it is only necessary to watch things more carefully". The relevance of the informal networks is directly or indirectly highlighted by most of the interviewees, and also by those who do not

have access to the networks: "I have been unemployed or a trainee for the longest period in my life but knowing the right persons might have helped me to get a job". It is clear that several, sometimes overlapping, networks are important for transitions into the labour market. One interview explained how he succeeded in finding a job through his social capital: "I found out [about the available job] from a friend. One keeps in touch with former schoolmates working in the same profession."

## Conclusions on the Interviews

Most of the interviewees had experienced migration in one way or another. There are locals born in Kainuu that were returning from studies or coming back because of job opportunities associated with family ties, and there are also newcomers attracted by job opportunities or family relationships. It seems then that the appreciation of personal roots and a feeling of belonging through their family and/or professional ties play a special role for the interviewees. The family social networks function as a 'pull' factor for the region, their capitalisation being more likely when there are also well functioning professional networks. It can be argued that a positive attitude together with access to local family and professional networks are crucial for entry into the regional labour market.

Based on the findings from the interviews conducted, it can be argued that the Kainuu self-government model plays an important role for almost all of the interviewees. Moreover, it is interesting that there seems to be a shared view between the people involved in designing it (which some of the interviewees were) and the ones for whom it is designed. Eleven of the twelve interviewees were aware of the new regional government structure and *did* form an attitude towards the change. In addition, among the entrepreneurs in the separate business start-up interviews, a certain level of awareness about the Kainuu government model existed, but only half of these interviewees were aware of the change. Those interviewees that were aware of the regional change are expecting some improvements, but fear that some problems will also manifest themselves.

Among the expectations in respect of Kainuu's self-government model was a key change in regional policy, reduced bureaucracy, hopes for new jobs, better educational opportunities, and improved health services. Interviewee statements in this respect include: "*the county has turned from national sector policy to comprehensive thinking*", "*people need more quality service providers, not the bureaucrats, whose work is very expensive for taxpayers and not adequately fruitful*", "*development and new jobs are decisive things in the experiment*" and "*decrease the costs of municipalities when overlapping activities will be closed down*". At the same time, there are worries that the new government model may actually contribute to increased bureaucracy. One of the interviewees stated: "*among the problems of the government model are the increased bureaucracy and the for-*

*mality of big organisations*". Some of the entrepreneurs stated that it was positive that the new model meant cooperation between the different local authorities and that it included a deduction in social security expenditure. On the other hand, there was a worry among this group of interviewees that the new system may result in longer dis-

tances having to be covered to access services. Overall, there are different hopes and fears about the new government model as well as a significant lack of awareness. Time will tell how this experiment affects the income system of Kainuu.

## Concluding Discussion of the Kainuu Income System

Based on the combination of structural and individual perspectives on the insular income system in Kainuu, it is possible to conclude with some indications of the permissive factors in the system. Which factors contribute to a sustainable employment system and which provide obstacles for such a system in Kainuu? Finally, some soft policy recommendations are derived, indicating possible policy orientations to promote a sustainable employment system; that is to say, a system where transitions to and from the labour market are as smooth as possible.

### Permissive Factors for Access to the Labour Market and Transitions within the Income System

Major factors facilitating earning an income are: the desire to self-improve, professional mobility, family ties, and professional networks. The desire to self-improve is exhibited by pursuing further training and education, particularly when there is no available job matched to the current qualifications. Professional mobility is shown whenever a person is willing to change either employer or even the occupation in order to access the labour market. Family ties might supply vital information or access to other kinds of resources that facilitate transitions, e.g. access to housing.

Major factors facilitating successful transitions include involvement in training and inclusion in professional networks. Training and networks may trigger access to the labour market either independently or in combination. Keeping in touch with one's own professional associations might contribute to finding a job even after a period of absence due to study, parental leave or military service.

### Obstacles to Accessing the Labour Market and Barriers within the Income System

Major factors impeding the earning of an income relate to marginalisation, with many potential causes (belonging to a minority group, health problems, prolonged unemployment), lack of training or education, passive attitude, difficulties in accessing professional networks or one's expertise becoming obsolete in the regional economy context. In some cases, there may simply be a lack of knowledge in respect of openings in the labour markets that prevent people from getting a job. A positive example here is that

of *Snowpolis*, which attempts to be proactive about job opportunities both among those already working there and in the wider community.

Major barriers to successful transitions include the weakening of individuals' social networks, blocking their capitalisation ability and the lack of sufficient educational skills or training. Social networks can suffer in cases of lifestyle changes. The initial ties fade away and slowly the individual loses their connections with other networks and therefore cannot utilise these relationships. Improved ways of evaluating the individuals' needs for training as well as in-house training possibilities should be encouraged.

To complete the overall picture of the income system in the Kainuu region, it is worth paying attention to the transitory income system model as described in chapter 2. In figure 6.4 (next page), figures for the different parts of the income system in Kainuu for 2003 are provided as a quantitative illustration to this system.

In 2003, almost a third of Kainuu's population consisted of retired people. The number of pensioners in relation to the active population aged 15–64 years gives a dependency ratio of 33.8% in Kainuu compared with 30.4% in the country as a whole. In Kainuu, about 14% of the age group 15–64 retired the same year as compared with 10% in Finland as a whole.<sup>9</sup> As can be seen in figure 6.4, the unemployment rate is also very high, and reflects a clear need for both proactive and reactive measures to improve the population's opportunity to make a living in the region.

### Preliminary Policy Recommendations

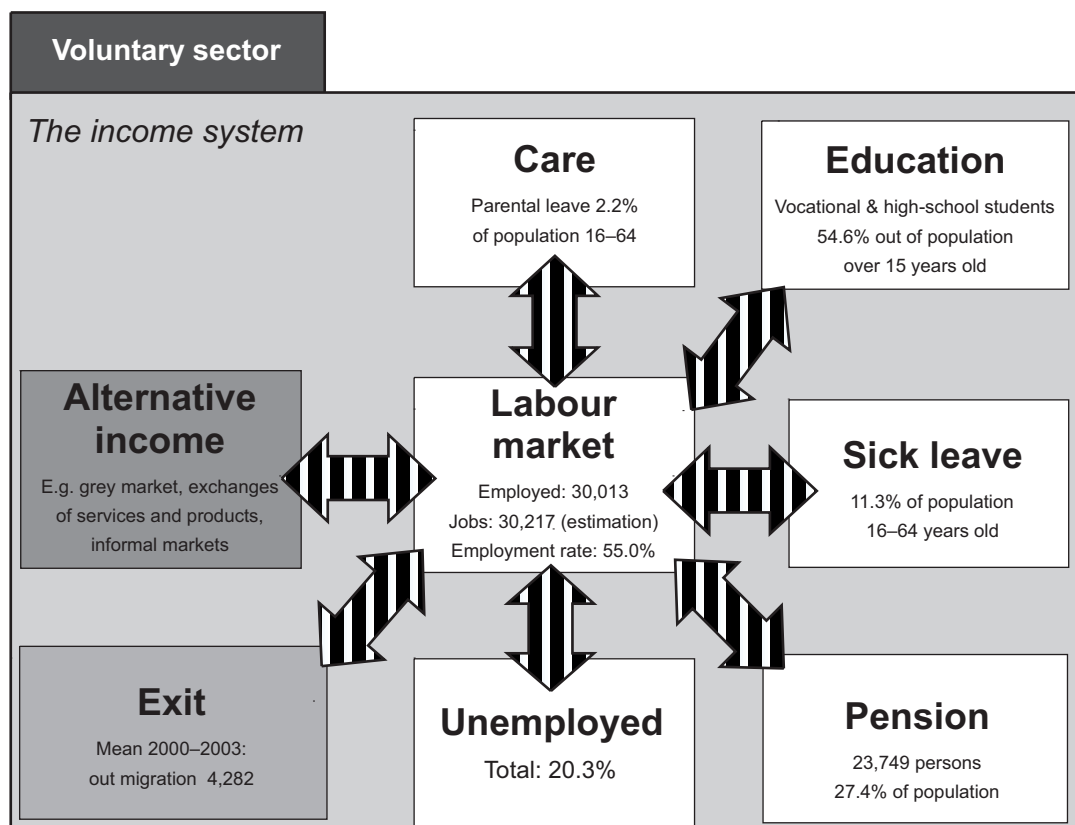
Building and enforcing local networks and local identity in combination with efforts to create new job opportunities could be an important factor in facilitating sustainable employment.

Connecting local to national and international networks, emphasising the potential role in preserving local values and enriching them with external help could allow

<sup>9</sup>Statistics Finland, Populations Statistics: Employment data for years 1987–2004, data analysis Sirpa Korhonen and Andra Aldea-Partanen, [www.stat.fi/tup/tilastotietokannat/index.html](http://www.stat.fi/tup/tilastotietokannat/index.html)

The used data is available in the Regional database ALTIKA, for paying customers, in Finnish Tilastokeskuksen maksullinen aluetietokanta "ALTIKA".

Figure 6.4 The Kainuu Transitory Income System in 2003. Sources: Data provided by Statistics Finland and courtesy of the regional office of the Social Insurance Institute of Finland.



the consolidation of existing jobs and emergence of new ones.

Better knowledge is needed regarding the sustainability of businesses in Kainuu. Specialised surveys could provide more accurate information on which to base policies and initiatives to promote entrepreneurship and improve business conditions in the region.

Targeting education in social and health care should be an important priority in the Kainuu regional labour market, particularly as this field of study is favoured by young people in the region. Moreover, better advertising the educational opportunities available in this field, while stressing also the likelihood of subsequently gaining employ-

ment *in the region*, could potentially significantly increase the attractiveness of both the regional education and labour markets. This could appeal to an important segment of the population needed in the region, in effect, helping them to remain there.

Another way in which young people from the region could be retained or attracted could be to put in place a housing policy that offers access to low rent houses or affordable loans. Such a policy would enable young individuals and families attracted by the new possibilities available in the labour market, but disadvantaged by their initial inability to move onto the property ladder, to find suitable and affordable accommodation.

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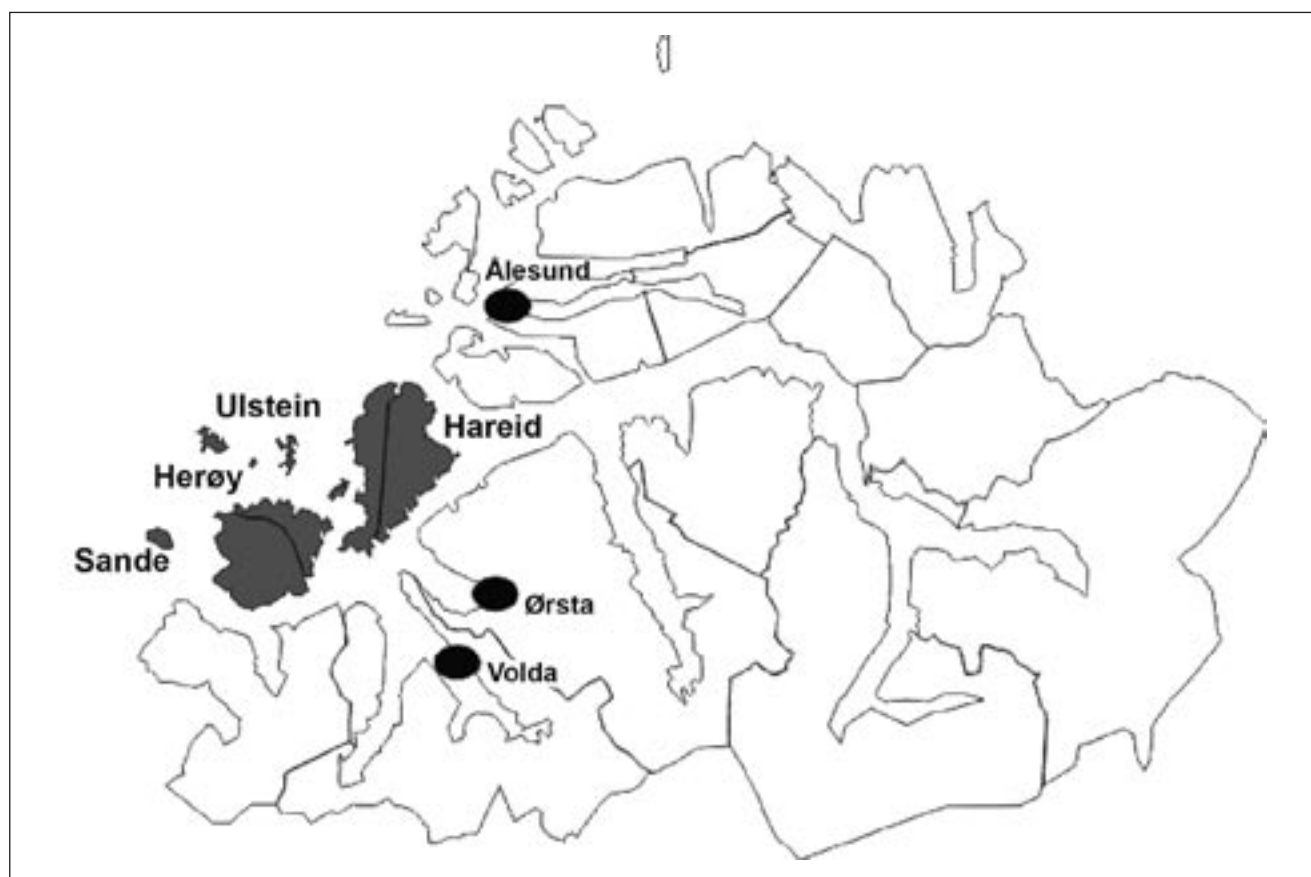
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Figure 7.1 Map of the southern part of the county Møre & Romsdal.



# 7. Challenges to Income Systems in the Ulstein Region

*“It’s the entrepreneurial spirit and the low threshold to starting my own business that makes it attractive for me to live in the Ulstein region. It’s not necessarily the money that appeals but simply the joy of making something, and finding good solutions to problems.”* This statement comes from an engineer active in the maritime industry in the Ulstein region.

Attitudes of this kind may have contributed to the modification of the industry in the region that has seen it take the lead in terms of the production of ships and ship equipment. The private sector moreover has a high level of demand for labour, such that vacancies are increasingly being filled by persons from outside the region. The main challenge here then is that the shipbuilding and ship equipment industries are exposed to stiffer competition, exacerbating the already unstable order book situation in the maritime branch more generally. Another challenge is that an almost uniform pattern of male employment prevails across the sector. In this chapter, the challenge of finding a job in this type of labour market will therefore be discussed.

The chapter begins with a summary of the geography, communications, demography and the historical development of the region. This section is followed by a discussion of the structural characteristics of the labour market. Thereafter, a discussion dealing with regional development policies from both the national and regional levels is entered into.

The last part of this chapter is based on a number of biographical interviews, focussing on the interviewees’ adjustments to the labour market. In the final section of the chapter, we conclude by indicating some of the permissive factors of, and obstacles to, the sustainability of the Ulstein income system, providing some soft policy recommendations in the process.

## Geography

The Ulstein region is situated on the North West coast of Norway, South of Ålesund, and consists of a group of large islands. Large parts of the Ulstein region are mountainous, with outlying fields and bogs. The region still has no road link with the mainland in Ålesund, which is the largest town in north-western Norway with some 35,000 inhabitants. There are two small towns in the region; Ulsteinvik and Fosnavåg. The region of Ulstein has a population of over 22,000 people.

Politically, the region consists of four different municipalities; Ulstein, Hareid, Herøy and Sande (see figure 7.1).

The Ulstein region consists of two rather large islands, where we find Ulstein, Hareid and parts of Sande and Herøy. But Sande and Herøy are also made up of many small islands connected to the larger islands by bridges and ferries. There is a strong concentration of businesses and industries associated with the maritime industry, fisheries and the offshore sector in the region. The economic base of the region is to a large extent characterised by this.

The region faces a number of special challenges, for example a mismatch between the supply of, and the demand for, labour – there are simultaneous shortages in some sectors and job losses due to restructuring in others. Other challenges include creating attractive living conditions and ensuring better communications with other parts of the region.

## Communications

To get out of the region, you can either travel by speedboat to the centre of Ålesund or to Vigra airport, by ferry to the Ålesund region or Ørsta/Volda. This ferry will however be replaced by a sub sea tunnel, the ‘Eiksund-sambandet’ in the near future. The nature of intra-regional communications and the travel distances within the region make it an integrated employment system.

## Demography

The current population of the Ulstein region is 22,415. The largest centre is the municipal centre of Ulstein, Ulsteinvik with 5,105 inhabitants. Fosnavåg and Hareid, the municipality centres in Herøy and Hareid, each have just over 3,500 inhabitants, whereas Larsnes in the municipality of Sande has just 511 inhabitants.

The population of the region increased up to the year 2000, though since then it began to decline. With the strongest sustained growth in the region however Ulstein itself continued to grow throughout the period. The decrease in the number of people is most pronounced in Sande, which is the smallest and most peripheral municipality in the region.

The Ulstein region has seen relatively high birth rates as compared to the more centrally located parts of the country. The region has for some time however witnessed net out-migration. As with many other parts of peripheral Norway, a net export of young people to the more central parts of the country occurs. In the long run, this also results in a reduction in the excess of births. While the region was still subject to population growth in the late 1970s

and early 1980s in spite of high out-migration, this has not been the case recently. High out-migration and a low excess of births have thus led to population decline. Further population growth is therefore dependent upon an increase in return-migrants and newcomers.

The net migration loss is largest among those who have undertaken a course of higher education. Many people chose to move out of the region in order to take up an offer of higher education for instance in Oslo, Bergen or Trondheim, or sometimes even abroad. However, for some groups with higher education, the possibilities for having a career in the region are seen as good. In a study carried out in the region in 2003 (Båtevik, Olsen & Vartdal), it was discovered that it was not uncommon for young people in the region to choose their education and career with the intention of being able to live where they had grown up. They argued that they saw good opportunities for having a professional career in the industries of the region. They could do this by studying engineering in Ålesund, which also gave them the opportunity to maintain regular contact with their home environment while they were studying. Additionally, among those who were fully qualified civil engineers, and who had had to study at university colleges in other parts of the country, the aim of eventually settling down 'back home' could be influenced through their period of study. They often kept in touch with their birthplace through reading the local paper, through summer jobs and by spending holidays at home. Even though the engineers in particular mentioned that even at an early stage they had planned to find work 'at home', this did not prevent some of them from taking work in other parts of the country. Even so, they maintain that when it comes to having a career, they see clear advantages in being established in the Ulstein region, precisely because of the position local industries enjoyed both nationally and internationally. The study also showed that the newcomers to the region were people who had some kind of attachment to the region, by marriage or through other forms of family relations.

The population pyramid is fairly typical for rural areas. The number of people between 35 to 60 is relatively large, even if they have been reduced as a result of net out-migration. The number of people between the ages of 20 and 30 is however quite small. This is due to large out-migration among people in their twenties, at a stage in the life course when return-migration is relatively low. It is however also a result of the small birth cohorts produced some decades earlier.

Møre & Romsdal county, along with large parts of rural Norway, has a migration deficit. The households that established themselves in the region are too few to replace the young people that leave without returning. There is a lack of inter-regional in-migrants, whether it is return-migrants or newcomers. Of those that grew up in the county of Møre & Romsdal (born between 1960 and 1964), 72% of the men and 66% of the women have chosen to settle in the county (Båtevik 2002). In the Ulstein region, the parallel figures were 65% for men and 53% for women.

### Historical Development "Path Dependence"

The Ulstein region is one with strong traditions in the fisheries and agricultural sectors. The farms are small, and the farmers have thus had to find new incomes to supplement their traditional income from farming and fishing. The development of the region differs in many ways from that of other parts of the country, and even other parts of the county. According to Løseth (2004), Sunnmøre, where the Ulstein region is located, did not develop the same form of gap between the different social classes as other regions. Traditionally, they organized the fisheries in a collective way. The fishermen owned the fishing boats together and shared the income. The labour organisations were not as strong as in other parts of the country, due to this egalitarian manner of organising work. A puritanical way of living could also be identified, while there were strong sanctions for instance against the use of alcohol.

The history of the shipbuilding industry dates back to the beginning of the last century where it emerged from the small repair yards used to service for the local fishing industry, whereafter, these yards soon began to build smaller fishing boats of their own. Currently they build larger ships for the oil industry, for the public transport market and for fishing. Ship equipment and design is becoming increasingly important for the local economy. Indeed, the Ulstein region is today considered to be the premier 'cluster' in terms of the Norwegian maritime industry (Hervik 2003).

The fisheries industries in the region do however retain some importance, with Herøy being one of the largest fish export municipalities in Norway. The offshore sector is represented by the existence of the international shipping companies in the region, while the fish farming sector is also becoming increasingly important to the regional economy.

# Structural Characteristics of the Local Labour Market in the Ulstein Region

## Labour Market Characteristics

There was an increased need for labour during the spring 2006 period in the Ulstein region, with the shipbuilding businesses in particular seeking qualified engineers. The demand for labour is being partly addressed by an influx of foreign labour, and it is likely that the demand for engineers will also be met via the use of hired workers from abroad.

The increased demand for labour was generated by the influx of orders won by the maritime businesses in the area. Business analysts expect that this situation will last for about two or three years before a new downturn in demand may occur. The most important challenge to the smooth functioning of the labour market in the Ulstein region then is the basic market structure of its main branch of business, and in particular, the 'boom and bust' nature of the business cycle in the shipbuilding and outfitting sectors.

The Ulstein region has a relatively concentrated settlement structure in and around the city centre, while a decline can be seen in other parts of the region, particularly in the smaller islands. Over the last 30 years, this population decline can be measured at about 40% in the islands of Sande municipality. These islands have not seen anything like the same level of industrial and service development as have the rest of the region, while the local labour market alternatives are generally tied to the primary business sector or, failing that, to commuting to the more central parts of the region.

## Structural Change in Industry and the Public Sector

Many of the dominant sectors in the economy of the Ulstein region are exposed to competition, both on the national and the international level. The further development of the shipbuilding and the manufacturing sectors depends on several factors, with interest rates and foreign exchange rates being important here in deciding whether they succeed on the international market.

There has been a reduction in the numbers of those employed in manufacturing industry all over the Western World, with the most labour intensive parts of the production process generally being relocated to countries in South East Asia or to countries in Eastern Europe with lower wages. In order to survive, the Norwegian shipbuilding sector has gone through a period of restructuring with the numbers of those employed declining markedly. In the Ulstein region however the manufacturing sector remains important in employment terms. The share of the labour force in this sector being at the same level in 2003 as it was

in 1990. However, a period of growth in the early 1990s was followed by a decline at the beginning of the new millennium.

Higher standards of living and increased spending power have resulted in an increase in employment in both the public and the private sectors. These sectors are not to the same extent exposed for international competition, though strong competition exists between the Ulstein region and its neighbouring regions; Ålesund and Ørsta Volda. Nevertheless, there has been considerable growth in the number of employed persons in this part of the economy over the last decade.

Structural changes within the shipbuilding sector, including the transition from shipbuilding to ship equipment and design are regarded as exhibiting the success of the restructuring process in the Ulstein region. Figure 7.2 (next page) illustrates the rapid change in employment terms from traditional ship building to the manufacturing of ship equipment. This has resulted in expanded production areas and markets. It has also resulted in increased production specialization within the region. The production of maritime equipment and the sale of vessel design have thus become increasingly prominent. The potential inherent in this more specialized sector does however make significant demands on 'know-how' levels and therefore affects the division between skilled and the highly skilled employees. The greatest employment opportunities for women are in the health and social work sector and in sales, hotels and restaurants.

## Number of Enterprises

Small firms dominate the Ulstein region. There are only nine firms in the region with more than 100 employees, with *Rolls Royce Marine*, *The Ulstein Verft* and *Kleven Maritime* being the largest, and 20 firms with between 50 and 99 employees. In addition, there are also 1,276 firms registered as sole traders.

## Labour Force Characteristics

### Employment

The employment situation in the Ulstein region continues to change due to cyclical fluctuations. The labour market, measured by the number of those employed expanded by 1,755 persons from 1990 to 2003. This also includes the number of self-employed persons living in the region. They have however seen a reduction in numbers from 1,571 persons in 1990 to 1,164 in 2003.

It is not easy to explain this decrease in the number of self-employed persons. One explanation might be that the

Figure 7.2 Employment in the shipbuilding industry and in other manufacturing industries, (mostly ship equipment industries) in the Ulstein region, 1990 to 2003. Source: PANDA, Møre and Romsdal County

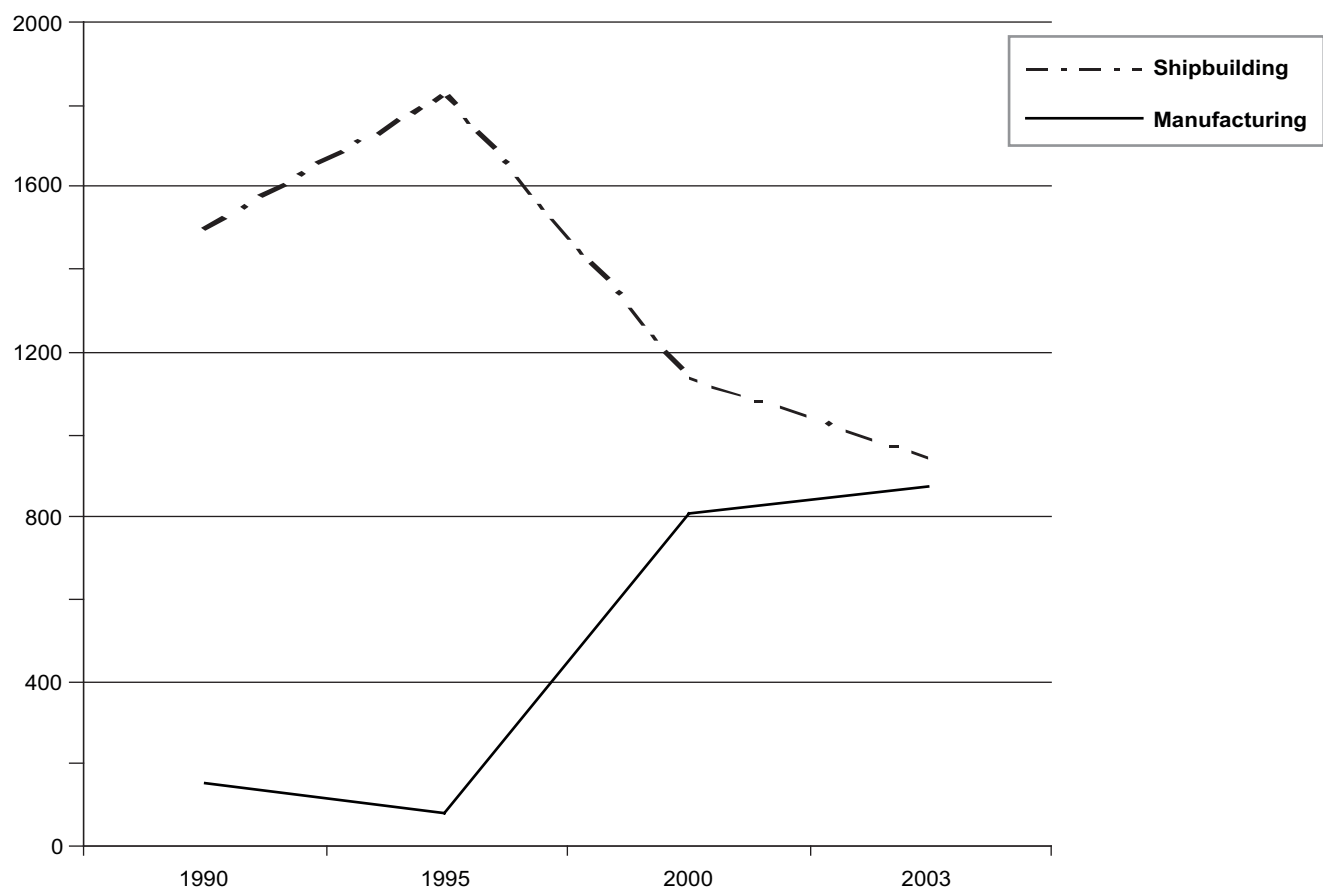
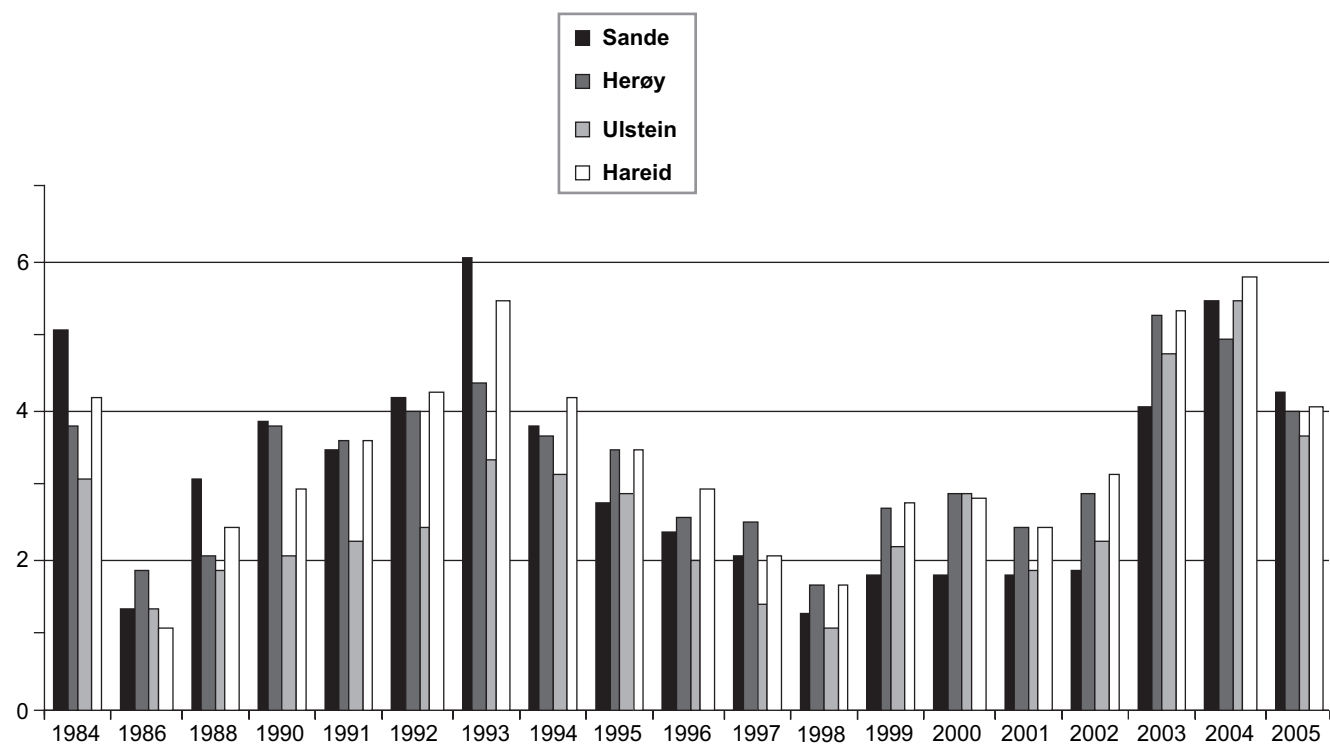


Figure 7.3. Unemployed in the Ulstein region 1984–2005. Annual average, except for 2005. Source: AETAT.



situation on the labour market has been very good during the period, and that it is more attractive to be employed than to be self-employed, with all of the financial risks that may entail. Another reason could relate to the decline of the agriculture and fishing sector, where the number of those self employed was traditionally quite high.

According to Green and Hardill (2003:11) it may be a positive sign that the number of self-employed persons in the labour market is decreasing. Self-employment, especially in rural areas should not necessarily be regarded as positive they argue. In general, self-employment is associated with relatively low incomes and may also disguise underemployment. But there is also a strong need to replace employment in declining industries, and this has, to a large extent to be done by people establishing new kinds of employment.

### *Unemployment*

The labour market in the region very much depends on the situation within the shipbuilding and fishing sectors, and this is generally reflected in the unemployment rates (see figure 7.3). The situation in these industries varies significantly over the years. Crises emerged in the shipbuilding industries in the middle of the 1980s, and again around the period 1992 to 1995. Similarly, problems also existed from 2003 until the end of 2004. The general situation in the manufacturing sector had however improved considerably by the beginning of 2005, and in the spring 2006, there was a large demand for workforce.

There are only small geographical variations in unemployment within the region. These are generally caused by variations in industry structure, where the fishing industry in Hareid, Sande and Herøy, normally are influenced by variations in the supply of fish, and also variations in the market for their products. This leads to periods where boats are 'tied up' for parts of the year.

The employment rates in Norway are high and unemployment rates are low compared to other countries. Until 1980 the unemployment rates was under 2% at the national level. Over the years the rate has varied between 2 and 4.5%, with some exceptions, for instance between the years 1988 and 1993, when the rates grew to 6%. From the beginning of the new century the rates have been around 4.5%. Increasing unemployment levels are due in the main to the periods of restructuring taking place in the manufacturing sector, transport and communications, and in the primary sector.

At the national level the unemployment rates have been higher for men than for the women. This is because the most serious reductions have taken place in those manufacturing industries dominated by men. The public sector, where the women predominate, have however been protected against the bad times (Lohne and Rønning 2004). In the Ulstein region unemployment rates are higher among men than women during periods with high un-

employment. In periods, which can be considered as "normal", the differences in unemployment rates between the sexes are however quite small.

There is currently little or no significant difference in unemployment rates between the regional and the national levels. In 2004, the rate was exactly the same; 3.9% in average. Seasonal variations account for the existence of larger differences during the year.

Foreign immigrants have lower employment rates than Norwegians (55% versus 69.4% in 2003 among the population between 16 and 74 years of age) at the national level (Lohne and Rønning 2004). In the Ulstein region immigrants provide an important contribution to the work force both in the ship yards and in the fisheries sector. Their conditions of employment are, in principle, the same as for the Norwegians. That is to say, your employment rights are based on your length of time as an employee, and your formal competence. When companies need to lay off some of their workforce they have to take account of an individual's length of service and the nature of their formal competence. Those with shortest employment record in the company and with lowest competence have to leave first.

In the Ulstein region, there are a considerable amount of jobs that do not seem to attract the local workforce. In this respect, immigrants, particularly males, have made an important contribution to the work force. These immigrants may however be at a disadvantage in respect of the more attractive jobs however because, the smaller firms at least have a strong desire to appoint people with local ties. This is not as common however in the larger businesses. (Båtevik, Olsen og Vartdal 2003)

### *Educational Levels*

There are two secondary schools in the Ulstein region, one in the municipality of Ulstein, and the other in Fosnavåg. These schools provide upper secondary level schooling in many different fields of study, in both theoretical and practical programmes. Anyone has the right to an upper secondary education when they are between 16 and 24 years of age. Compulsory education is completed at sixteen, but almost every teenager continues onto upper secondary education, even though not everyone finishes the course.

A close level of cooperation also exists between the secondary schools in the region and manufacturing industry. They have organized this in a collaborative association called '*Maritim forening for Søre Sunnmøre*'. This cooperative venture between 30 different firms, is used to take care of the practical training of pupils at different levels. Youths from across the region, who wish to gain a maritime sector skill, were guaranteed that they would get an apprenticeship with one of the firms in the venture. Historically, this cooperative venture saw a strong focus on the recruitment of skilled workers. The policy has however

now changed, with their most important task now being to act as a voice and as a meeting place for the maritime sector, and most importantly, as an organizer of the various courses on offer to industrial workers, and other types of staff. They also help pupils to obtain an apprenticeship, though they can no longer guarantee that one will be available. The establishment of a good level of technical and theoretical education at the secondary level can be seen as a signal that, in future, manufacturing industry will have a greater need for employees with a higher level of technical education, and that it is important to offer this kind of education within the region. (MAFOSS, 2005)

The shipbuilding industry also have a strong history of cooperation with the Centre of Expertise and the Engineering Department at Ålesund University College. This means that students from the University College can practice in the shipbuilding industries, and use these industries for their field work and so on. This gives the students the opportunity to gain access to the most modern kinds of equipment and knowledge in their training.

The educational level of the population in the Ulstein region reveals that a larger share of the population holds upper secondary education qualifications than the national average. This holds for both men and women. This generally reflects the strong need for skilled workers in the local labour market.

None of the municipalities are above the national average when it comes to tertiary education. However, there is a difference between the municipalities regarding highly skilled workers. The municipality of Ulstein is almost at a national level when it comes to higher education, while the other municipalities in the region, are far below.

The level of education in the population is increasing, and over the last two decades the proportion of people with a higher education has almost doubled (Statistics Norway 2005). There are geographical differences however, and the county of Møre and Romsdal have a rather low proportion of people with a higher education. A larger share of men (14%) than women (11%) have only primary level of education. The opportunity to gain employment without any education have traditionally been good, both in the shipbuilding and fisheries industries. These industries have also organized their own training programmes, which make it possible for people to have a career without having a formal education. Such jobs have been more common for men than for women.

In terms of University education at the Bachelors degree level, there is a higher share of women on all geographical levels. However, the Ulstein region is beneath both the county and the national level in this respect. When it comes to Masters' or PhD level both men and women in the Ulstein region are far below the national level (Statistics Norway).

One of the greatest future challenges to the Ulstein region is the recruitment of people with higher educational

qualifications. Studies of key personnel living in the region today show that, in many ways, they are divided in their opinions as to what basis there is for a professional career in the region. For some, conditions are reasonably good. Others say that by settling in the region, they have however had to lower their level of ambition when it comes to their own career (Båtevik, Olsen and Vartdal 2003).

For the key personnel working in the shipbuilding industry, we have already seen that they find that the region offers unique opportunities. These cannot however be found in the corresponding industrial environment elsewhere, at least not in Norway. For other occupational categories however, career opportunities are not as good. Indeed, many of the wives of the engineers in the shipbuilding industry had great difficulty in finding a relevant job. Even though some of them had a higher education, it soon became clear that these qualifications did not offer them the status that they had expected. On the other hand, it was expected that they would accept work for which they were over-qualified. In many ways, one can say that their competence was in opposition to the ideals fostered by local norms. Women with a university or college education had to adapt to suit the public sector job market. In general, their experience was that the labour market offered greater challenges than elsewhere. Moreover, some of these women had previously commuted out of the region, but since it was not possible to combine commuting with having young children, they chose to give their own careers lower priority for a period of time (Båtevik, Olsen and Vartdal 2003).

Some have chosen an education and career where living in the home region was the main objective. In most cases the path from education to work led them directly to the Ulstein region. Others have started their professional careers elsewhere. Some chose to return to the Ulstein region because it suited the career opportunities of their spouses. Others have moved back because they were offered work that they found attractive, or local employers needed their qualifications and offered them a job. The feeling of being wanted on the home job market can indeed provide many with the necessary inspiration to move back home.

### *Social Benefits*

The number of people who receive public assistance in the region has grown in the last few years. These tendencies are closely related to the ongoing situation within the fishing and shipbuilding industries, but there are also groups of people who are permanently out of the employment market due to alcohol or drug abuse or other socially related problems. However, the share of people in the Ulstein region receiving public support is comparatively low; between 3.3% and 3.7% as compared to 4.3% in the county as a whole and the national average of 4.4%. (PANDA statistics, Møre and Romsdal County).



### Marginal Groups

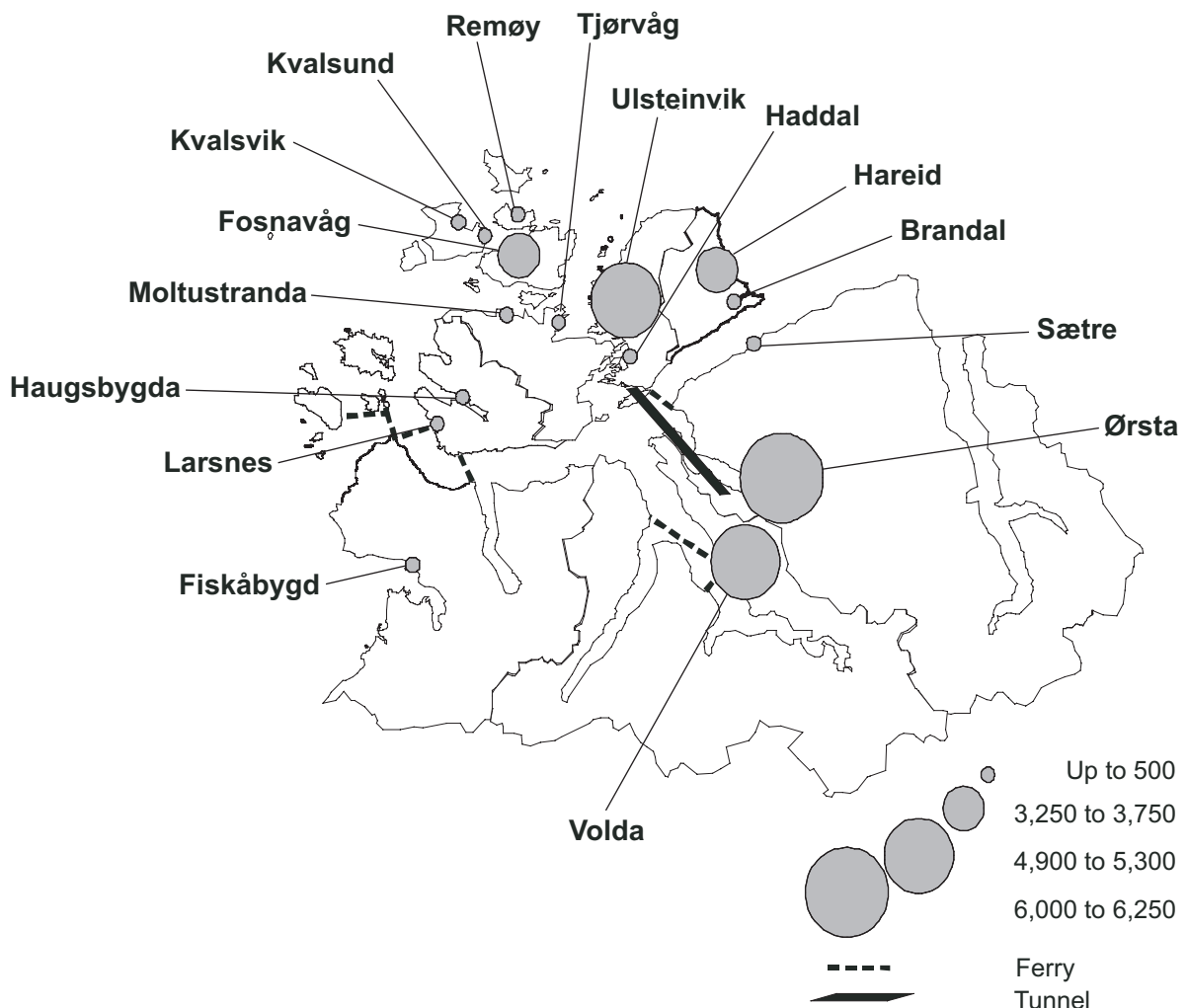
The employment situation with traditionally low unemployment rates makes the marginal groups in the Ulstein region small. Earlier studies from one of the municipalities in the region show that the inhabitants accept that some people might fall out of the employment system. Even if there are strong ethical norms in the region stressing hard work, there is also an understanding of the structural changes in the employment system, and that this might cause problems for people from time to time. There is not then an automatic suspicion that an unemployed person does not want to work. What can be seen as a problem is that there are groups of inhabitants in the region, which has become extremely rich the last few years, because they have sold their businesses. This has resulted in increased social differences, something that is highly conspicuous among the youths, and that might result in marginalisation of youths with parents having a lower income level, who cannot afford to buy expensive brand clothes and sports equipment, etc. (Heggen 2003).

### Commuting

The Ulstein region is a very integrated labour market region. Employees cross municipality borders to find work, and the manufacturing industries have to look both to their neighbours, and also outside the region to find enough staff. Ulsteinvik has the largest number of in-commuters in the Ulstein-region (see figure 7.4). The labour market in Ulstein gets 33% of their employees from outside the municipality, but only 8% from outside the county. Hareid is almost in the same position. Herøy is more self-contained, with 84% of the employed persons being from within their own municipality. This means that there is limited commuting both from and to the neighbouring labour markets outside the region.

The shipbuilding industry is the most important reason for people to cross municipality borders to go to work. The distances within the region indicate that commuting does not seem to be a problem. Other studies show that people from the region do not find it attractive to travel out of the region to work. The most common reason for this was that travelling by boat or ferry took too much

Figure 7.4 In-commuters to the different settlements in the Ulstein region and the Ørsta – Volda region (Amdam 2003)



time, time that they would rather like to spend with their families (Båtevik, Olsen & Vartdal 2003).

### *Quasi Market Solution, Informal Income*

There is no reason to believe that the Ulstein region differs from other Norwegian regions when it comes to quasi market solutions. People with certain skills often do their friends and neighbours a favour, receiving different favours in return, or receiving payment with 'black' money. This may be common for people who have part-time or seasonal jobs, people who are unemployed or on social benefits. There is no statistic material on these matters.

What is more important for the development of the regional labour market, and which also may be one of the great challenges for the future is the significant usage of hired workers. It has been common that Norwegian firms hire seasonal workers from abroad for construction work, industrial work, painting and so on. They are often employed by firms who offer them payments which are significantly below the Norwegian wage level. These firms have been quite common for instance in the shipbuilding industry, when there is a great demand for staff, but they often disappear in periods with less work. The current period is however a good one for the Norwegian maritime

industries, where for instance the shipbuilding industries have large reserve orders. But, due to restructuring, and to the mismatch of skills and vacancies the numbers of those unemployed are not necessarily being reduced. The expansion of the EU however in May 2004 makes it easier for the shipbuilding industries to hire Polish employees, both skilled workers and engineers. There is now an ongoing debate between the Confederation of Norwegian Business and Industry, the Norwegian Federation of Trade Unions and the Government, over the consequences of this. It is felt in some quarter that this will have significant consequences for young people trying to gain apprenticeships, and that it will also affect recruitment in terms of engineering education. Others moreover suggest that importing workers from Poland is basically 'social dumping'. Management at one of the shipyards argue that this is the only way they can survive in a competitive international environment. "Our shipyards have higher standards than those abroad, and bringing Polish workers to join us is an alternative to bringing our work to them. In this way we also are able to save Norwegian jobs and secure the regional cluster". (Vikebladet April 28<sup>th</sup> 2005 Director Steinar Kulen, Kleven Maritime)

## Past and Current Policy Intervention, Labour Market and Regional Development Programmes

At regular intervals the Norwegian national assembly, the *Stortinget* publishes 'White Papers' that state the overriding goals for regional policy. The white paper entitled, "New regional policy – for different regions" contains the following aims:

To maintain the main features in the pattern of population settlement and to release the potential for value creation in every part of the country. (Stortingsmelding nr 25 (2004–2005)).

The aim of preserving the settlement pattern has been in force for several decades, but has been amended as centralisation has gradually won the day and the pattern of settlement in reality has changed. Even so, the choice has been made to maintain this basis and the desire to achieve the aim by creating good and stable conditions for business and industry, through regional differentiation and the decentralisation of businesses.

The government is concerned with the fact that it is manufacturing industries in the regions that are facing the greatest competition in respect of globalisation. The way to meet these challenges is seen to be through

- effectivisation of production
- developing new and profitable products and new markets
- focussing more strongly on growth and innovation
- guaranteeing good conditions for business and industry.

The government also wishes to even out some of the differences in growth by moving public sector jobs from the centre into the regions.

Changes have also been made in the package of measures aimed at furthering regional development, with the tendency being to focus increasingly on innovation and development. There has also been a conscious effort to delegate responsibility for this development to the county authorities, who have been given the role of regional development actors tasked with developing partnerships with other actors at the regional level. The idea here has been to ensure that the measures are used to meet the real challenges faced in these local and regional settings. The strategy is developed in the context of a regional action pro-

gramme, which is drawn up as a bottom-up process in which actors in various positions constitute a broad regional partnership. This partnership is made up of industrial organisations, trades unions, Innovation Norway, politicians, representatives from the educational sector, Jobcentre network (Aetat), the Norwegian Association of Local and Regional Authorities (KS), and the various departments in the County administration. Working seminars are arranged with representatives from industry, politicians, members of the regional partnership, local authorities and the centres of expertise in the county. Here, on the basis of status reports that have been drawn up in advance, discussions are held on the challenges facing the county. Afterwards, regional meetings are also arranged with the local authorities under the auspices of the regional councils and local business and industry.

The regional development programme is intended to provide guidelines as to how state funds are to be used to

further regional development, both under the auspices of other partners, of the county authorities and of Innovation Norway (Regional development programme, Møre og Romsdal county).

To further guarantee the local adaptation of the measures and initiatives to ensure that they meet local challenges, the regional development partnerships are expected to draw up a list of priorities for regional investment. Regional development partnerships are amalgamations of the local authorities in a region. Ulstein region comprises, along with Ørsta and Volda, the regional council for Søre Sunnmøre.

The Ulstein region represents a limited area in Møre og Romsdal county, but achieves focus in the regional development programme by having strategic industries located in the region. Therefore the challenges facing the Ulstein region will be a focal point of several of the investment plans in the development programme.

## Sustainable and Less Sustainable Income Systems

### Lessons Learned from the Biographical Working Life Stories

This section is based on a number of life story interviews carried out in the Ulstein region (see table 7.1). The aim of these stories is to combine individual experience with that of the institutions and structures of the income system al-

ready addressed. Through the interviews it is possible to trace the factors that facilitate or hinder transitions within the income system. Such information is not available without focusing on individuals. The information gained through the interviews illustrates processes and indicates issues that are discussed against the backdrop of the mod-

*Table 7.1 Overview of biography interviewees*

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#### Young unskilled with transition history

- Young man in his early twenties who has been working in a number of different industries despite being trained in and skilled at working with machines.
- Young woman in her early thirties, with experience as a shopkeeper and with experience of working in a nursing home

#### Elderly unskilled with transition history

- Man, 59, with no formal education, with maritime work experience and experience of working at the shipyards.
- Woman, nearly 60 years old, with experience of different jobs in clothing factories, shipyards and as a telephone operator

#### Key professional

- Man in his early forties, with work experience from the Norwegian defence sector, as a personnel manager
- Man in his early forties, working as an engineer and project leader in the maritime industry
- Woman in her mid-thirties, with work experience as a bookkeeper, salesperson and currently as a social worker

#### Locals who have used their networks to find work

- Man in his early seventies, educated as a teacher and with a career as a headmaster. As a youth he had to earn money by working as a farm hand, at the herring meal factory, in a furniture factory and so on.
- Woman in her early thirties who has made herself a career as an actress and as a guide at a local museum. Before that she was a music teacher. She has also worked at a nursing home and in a shop.

#### Newcomer who has started a business to make a living

- Woman in her mid-forties who started her own kindergarten, and after that, her own consultancy firm. She also fits into the category of a newcomer who works in a company or organisation that is not dependent on the local or regional context, because she is now commuting out of the region to work at a University college.
-

els and concepts presented in chapter 2. Further information of the methodology of the biographical working life interviews can be found in chapter 1.

The biography interviews have been supplemented by using interviews with individuals from the same region carried out in two other research projects. These projects focused on key-personnel settling down in the region, and on young skilled persons and their choices connected to work in the maritime industries in the region. (Heggen, Båtevik & Olsen 2000 and Båtevik, Olsen & Vartdal 2003).

The life story interviews in the region were carried out in the autumn of 2004. The age of those interviewed varied from 20 to 73 years of age. The large variation in age neatly illustrates just how different the opportunities of finding work are, and not least how the opportunities have changed in relation to education. The oldest persons in the sample had just one possibility and that was to find a paid job as soon as they had been confirmed at the age of 15 and had completed their compulsory schooling. To stay on at school and receive an education meant further expenses and more often than not, leaving home. Work on a fishing boat or a job in a factory were usually the only alternatives that existed. The youngest interviewee enjoyed the legal right to upper secondary education without having to move away from home. In contrast to only a few decades ago, there are however fewer opportunities for those who want to enter the labour market before they are 18. Those alternatives that still exist are in the retail and service industries, the fishing industry and health care. This is work that young people often do as part-time jobs at the same time as they are studying or that are carried out by immigrants or women with little or no formal education.

It has usually been very easy for skilled workers to find a job for instance in the shipbuilding industries. This situation was expressed by one of the interviewees who stated: "I made a phone-call and could start when it suited me. There was just a phone-call and no interview, but a lot of my family worked here, so I guess they were pleased with the work they did."

This may not be as easy now, because of stronger competition from low cost countries in East Asia and more use of employees from abroad. A younger interviewee in the study has had to start his career by painting boats for an uncle, while waiting for the right job to come along.

Those who had to find work at an early age, and who had little or no education themselves, are very keen on their children finding something else to do other than working in the local manufacturing industries. This is an attitude that has been common all over the district and which has presented a problem for these industries in certain periods when the demand for skilled labour has been high. Both the parent generation and the younger generation want clean indoor based jobs (Heggen et al 2000). Other studies show that young people in the Ulstein region are now very education-oriented.

A number of the interviewees have, in various contexts, faced the choice between wanting to live in the Ulstein region and migrating, either to get an education or to find a job. Social ties have often been decisive for each individual's choices; well-being and interests, practical circumstances associated with the family situation and property. One interviewee stated, "I had to choose an education that could be combined with when my ex-husband who, as a seaman, could use his home periods to look after the children. That's why just module-based course of studies near where I lived was the only alternative." In some contexts, showing consideration for family and children, property and the spouse's job has prevented people from accepting the offer of a job outside the region. For others it has been possible to take their family with them for a shorter or longer period. One interviewee explained: "I took my family with me and moved to Eastern Norway for a period when the situation in the shipbuilding industry was bad. I also consider taking my family with me abroad for a period" ... "We moved back to the region because I missed the mountains, the fresh air and the house I have built here".

People reveal different attitudes when it comes to how important it is for them to live in the Ulstein region. Some are willing to reduce their own career ambitions in order to stay. They can choose to make a living by taking a variety of part-time jobs, work shifts at the local old people's home, care for people with learning disabilities, often while they are trying to gain a foothold in the labour market. Their network helps those finding different jobs to make a living: "In small places like that they know who can do what, and they knew I was available and could do some teaching at the music school".

The interview material also includes examples of persons with so-called free artistic professions, which combine various ways of earning a living, both in line with their professional qualifications and those in totally different lines of business. One woman, for example, deals in various forms of art. She really wants to remain in the region. There are no institutions that offer jobs in which she can practise her trade full-time. Even so, there is a long way to go before this activity can guarantee her an income that is comparable with jobs in other professions with a corresponding level of education. She is able to make ends meet in this way because she can live cheaply in her childhood home.

For some it is the special industrial entrepreneurial culture they find in the region that makes it attractive to settle there: "I've always been a sort of a local patriot, you know. It is mainly the fact that, yes when you have your qualifications in the maritime industry field, then there's no other place in the world for you".

An example of newly established in-migrants who were newcomers to the region was a woman who started her own kindergarten. She was met with scepticism by the

older members of the community, but otherwise was met with goodwill from both the local authority and the market. She stated: "I moved to an open village with lots of newcomers, and there they were open towards people who were not afraid to lend a hand. It was a village with a tradition of good voluntary communal effort. That was something I had learnt at home and I gave it my all in playing my part in the community! I joined a group and we started a private kindergarten".

Later on she started a new company: "I had ambitions about running my own company, and therefore I chose to start a firm in a business centre that had been established in the municipality. It was exciting work, but the set-up was not good enough and the center went bankrupt. In addition the last few years have been tough for industry, but it was useful experience, even though it was lonely working on my own".

In the Ulstein region fierce competition exists over staff in some sectors. The level of employment has been high, and the employees have been well looked after through of-

fers of in-house training and courses, and through for example being consulted for advice. Manufacturing workers have been given the feeling that they can really make use of their individual expertise in their jobs. It is however uncertain what the future now holds in this respect.

For the people of the Ulstein region working as fishermen has placed them in an industry that has been open and has often been something to turn to when there was no other work on land. This has also been, and remains, a way to earn good money for those who are willing to work hard.

The nature of the labour market however differs for women and men. Women who do not have the opportunity to work in either the public or the private sector service industries in general have a choice between working in manufacturing industry and being a housewife. It is not at all unusual to choose the latter alternative, at least for those with young children. There are a number of examples of this among the households that have been interviewed.

## Conclusions

In this chapter we have focused on the Ulstein region and the challenges it faces in relation to the labour market. We have tried to focus specifically on transitions in the labour market (see chapter 2).

The Ulstein region is seen as a core area for the maritime industries in Norway and has shown itself to be one of the most dynamic industrial clusters in western Norway. Shipbuilding, the supply industry and fisheries are the dominant industries here. At the same time all business and industry in the region is extremely exposed to both cyclical fluctuations and foreign competition. Developments in recent decades have meant that the industry has faced challenges in a number of areas. Both production areas and market areas have expanded, while regional production has become more specialised. The production of marine equipment and the sale of vessel design have become more prominent. The potential in this more specialised section of the industry makes great demands on the stock of local 'know-how'.

The Ulstein region is characterised by a large demand for labour. This makes the region somewhat different from the other insular regions. Traditionally, the demand for skilled workers has been high. Men in the region have to a large extent been educated for work in the shipbuilding industry. There is however now reason to believe that the demand for this kind of work has been reduced. However, this cannot as yet be observed in the unemployment rates in the Ulstein region.

One of the most serious challenges in relation to internationalisation is the loss of Norwegian jobs. There is a great deal of anxiety associated with how much of the production chain will be outsourced, either to other parts of Europe or to Asia. In the Norwegian shipbuilding industry the number of jobs has already been reduced by a third in only a few years, while productivity remains the same. The restructuring of the fishing industry results to a large extent in moving activities to countries with lower wages. This will hit groups of employees with very low formal qualifications and might lead to unemployment because it will be difficult to find new unskilled jobs. Considering that these jobs tend to be physically very hard, it will be more likely that some of these people will opt to receive national insurance benefits rather than applying for new jobs.

### Permissive Factors for Sustainable Employment

Among the factors that promote sustainable employment is the culture of industrial entrepreneurialism which has the potential to develop new job opportunities. There are also a number of informal and formal networks between companies, schools and training colleges and other actors in the region that can be harnessed to facilitate smooth moves e.g. in the school-to-work transition. These formal and informal networks also contribute to the stock of wider social capital in the region, another asset for sustainable employment.

## Obstacles to Sustainable Employment

There are a number of hindrances to sustainable employment in the Ulstein region. A tradition of preferring 'hands-on' experience at the expense of formal qualifications can often prove to be an obstacle as the maritime sector now demands more highly qualified labour. Linked to this is also the shortage of highly qualified jobs in sectors where it is in the main women that work. It may be difficult to recruit highly qualified labour for the maritime industries, mostly men, if there are few options for their spouses to find jobs that match their qualifications.

## Suggested Policy Orientations for Sustainable Employment in Ulstein

Heavily industrialized regions often develop their own cultures among workers. This culture often stands in stark contrast to entrepreneurial cultures, where people look for opportunities to create their own incomes and to be their own boss instead of working for an employer. The Ulstein region has traditionally been a region where entrepreneurial activity has had a strong position, there have been close networks between businessmen in different branches and between the owners of the manufacturing industries and their employees. These networks have been very innovative in developing new products. This kind of activity needs to increase in the future, both as a result of the competition with manufacturing industries abroad, and because of the need for new job creation. (Olsen 2005, Bukve and Gammelsæter 2004)

The question of skill and education is also important for the future of the Ulstein region. Traditionally there was a strong desire, exhibited locally, to appoint people with practical experience rather than formal qualifications (Heggen, Båtevik and Olsen 2000). The changes within the manufacturing sector however see larger demands for people with higher formal qualifications now being made, both in the production processes, and in the innovation processes where there is a need for people with the right knowledge. Better channels and levels of communication with people at the universities, and with producers in the countries with which they cooperate is therefore needed.

Some level of focus must also be placed on the regional innovation system. As we have noted previously, a long tradition of cooperation dealing with the practical training of pupils, providing apprenticeships and dealing with leadership courses exists. The 'Nordvestforum' organisation also has a strong focus on networks and leadership. In addition, a Centre of Expertise in Ålesund has also been

established, with a focus on the maritime and the marine sector. The greatest challenge in the future may however be the public innovation system. Do the public innovation system and manufacturing industry talk the same language? Does the public innovation system see the need for the restructuring of the Ulstein region, or are they only focused on other regions with 'more serious' and acute problems (Gammelsæter 2004)?

The manufacturing industries in the Ulstein region have themselves been the driving forces in developing cooperative ventures with the school system, to make sure that they are able to cover their own needs for a future work force. Undoubtedly however future challenges will rest on their ability to cooperate and build networks with universities and university colleges both on a regional and on a national level. There will also likely be a growing need for post-qualifying education and for the up-grading of courses for the work force with the need for higher qualifications, or for more flexible qualifications.

### *The Labour Market for Women*

If rural regions are to survive they must meet the challenge of recruiting labour with the qualifications and capacities that business and industry demand. Businesses and industry more generally in the Ulstein region are male dominated. It is likely that women do not see the same potential in relation to a career as the men do. Earlier research projects have shown that women who have established themselves together with their family in the region, say that to do this they have had to lower their own career ambitions. They have been willing to do this in the main because of compensatory mechanisms such as family ties and access to beautiful natural surroundings (Båtevik, Olsen & Vartdal 2003). The regions also have to meet a number of challenges related to what they see as typical jobs for men and for women. As such they must increasingly look upon the qualifications held by women in less traditional ways to get the best out of them.

The new opportunities which are likely to appear when the new sub-sea tunnel is opened between the Ulstein region and the Ørsta – Volda region in 2007 will potentially deliver many new possibilities for women who are willing to commute out of the region to work. This will give better access to work in the hospital or at the regional university college located in this region. If this is to be a success however, the prices connected with travelling must not be too high.

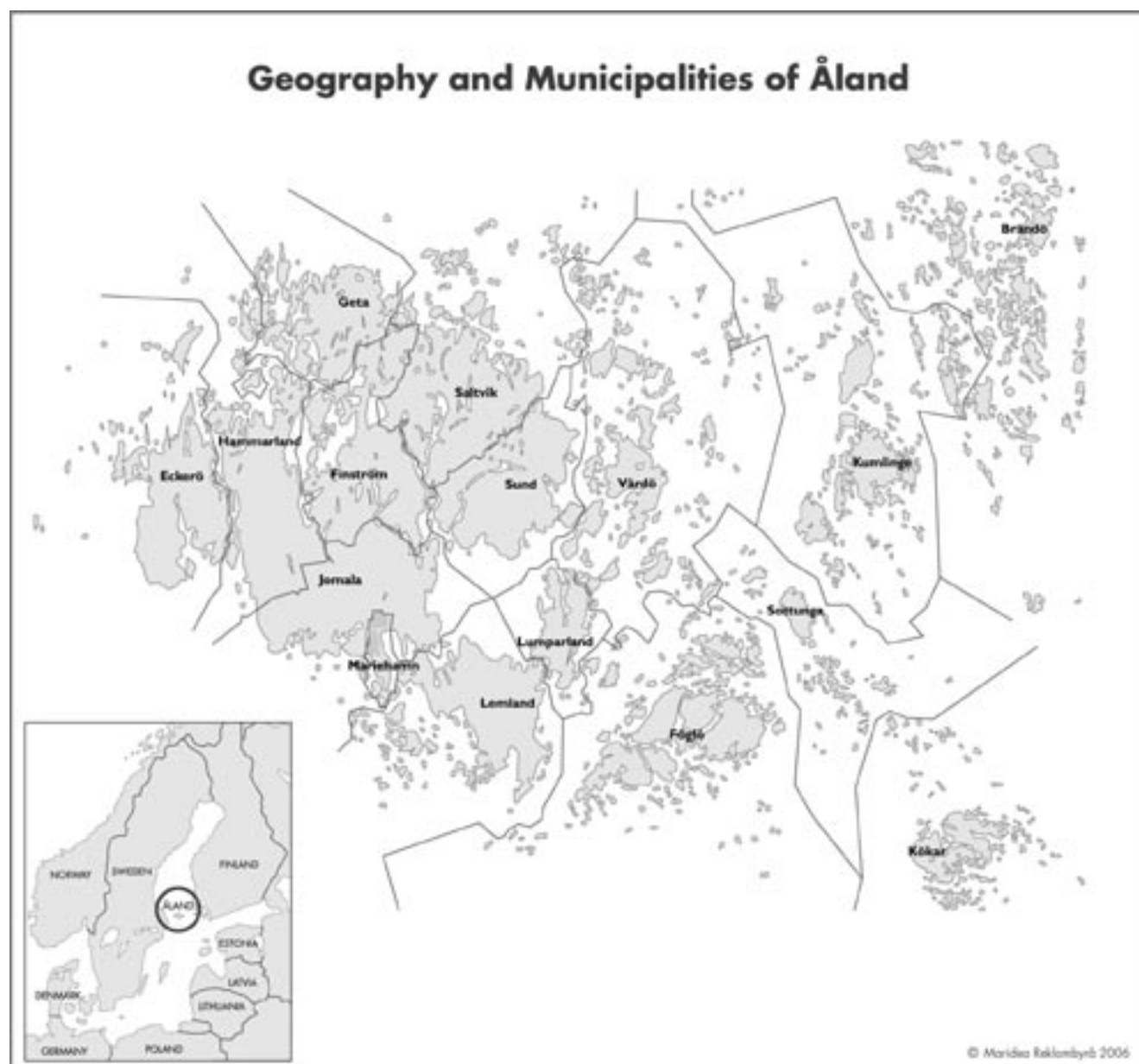
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Figure 8.1





# 8. Challenges to Income Systems in Åland

'If you didn't have a job, you created one.' This quote from one of the interviewees in Åland reflects the strong norms that exist there on the importance of working. To be unemployed was not really an option, thus Ålanders have tried to make sure that they either earn an income through paid employment or by running their own businesses. How does this income system work? In this chapter, challenges to the income system in Åland are discussed against the backdrop of the models and concepts presented in chapter 2.

The Chapter commences with an introduction to the region setting the context for the income system scrutinised here. This section is followed by a discussion of the

structural characteristics of the labour market and the labour force in Åland. Issues relating to the composition of the social, institutional and policy framework of the income system are then briefly addressed, followed by a section highlighting the lessons learned in connection with the biographical interviews carried out. In this section, the individual experiences conveyed are linked to the structural framework of the income system, while some tentative reflections on the theoretical framework are made. In the final section of the chapter, we conclude by indicating some of the permissive factors and obstacles for the sustainability of the Åland income system, providing some soft policy recommendations in the process.

## Åland – an Autonomous Island Region

### Institutional Conditions

Åland is an archipelago located in the northern Baltic Sea enjoying political autonomy ('home rule') within the realm of the Finnish state. This measure of autonomy covers, among other things, legislation, administration and policy development concerning the promotion of industry and the labour market. Thus, these 'home rule' provisions cover the core policy subject areas of this research project.

Apart from passing laws, the main task of Åland's Parliament is to oversee and distribute the budget of Åland. Income consists of Åland's own revenues and a lump sum received from the Finnish Government, which constitutes a form of repayment, in part, of the taxes paid by Åland to the Finnish State. Åland's Parliament is located in Mariehamn, which is the political, administrative, and economic centre of Åland.

The right of domicile in Åland is a requirement for the right to own real property and to conduct business in Åland. This limitation was introduced to ensure that the land would remain in the hands of the local population. It does not prevent people from settling in the Åland Islands. Åland joined the EU in 1995 in accordance with a special protocol that regulates its relationship to the Union. The protocol states that Åland shall be regarded as a 'third territory' with respect to indirect taxation.

### Geography and Communications

Åland consists of a main island, surrounded by roughly 6,500 smaller islands. Slightly more than 60 of the islands are inhabited on a year-round basis. The total area amounts to barely 6,800 km<sup>2</sup>, of which slightly more than 1,500 km<sup>2</sup> consists of land surface. Åland is, in other words, small and spatially diffused. This also applies to the administrative structure. Åland has 16 municipalities, of which six are situated in the 'archipelago region', which is not connected to the main island by road (see figure 8.1).

Transport to and from the archipelago region within Åland is dependent on a network of car ferries. From the inhabited island situated furthest away (in the northeast), it takes approximately five hours, using three different ferries, to get to Mariehamn. Åland has relatively good communications with its neighbours. There are daily ferry services to Stockholm, Turku, Helsinki, and Tallinn, with, in addition, daily flights to all but Tallinn.

In terms of information technology, there are few obstacles to working in, and from, the Åland islands today. The islands have a broadband network that is accessible to almost the entire population. The mobile telephone network covers the main island as well as the archipelago, and the network is already prepared for 3G services.

## Population Dynamics

The current population of Åland is 26,766. In line with many parts of Western Europe, large age groups are approaching retirement age and the birth rates are declining. Some 40% of Åland's inhabitants live in Mariehamn, while a further 50% live in the countryside on the main island, that is, within commuting distance by car to Mariehamn. The remaining 10% live in the archipelago. The total population in the municipalities at the end of 2005 varied from 127 (Sottunga) to 10,780 (Mariehamn).

Since 1980, there has been a trend towards increasing net immigration in Åland as a whole. Thus, population growth has been relatively fast.

Migration has become an increasingly important determinant of labour supply in Åland. During the period 1990–2004, net immigration averaged 0.38% of the population, a level corresponding to that of the growth areas in Southern Finland, save that of the capital city region of Uusimaa. In 2002, however, the net migration rate was highest in Åland, 0.84%, of all the Finnish NUTS 3 regions (Statistics Finland, 2004). During the period 1980–2004, net immigration accounted for 65% of Åland's population growth.

Migration has thus become a way of escaping the limitations of having a small labour market, both in periods of high economic growth and in recessions. The unemployment rate and net migration correlate strongly. In recent decades, the main source of in-migrants has been mainland Finland, while the major out-migration destination has been Sweden (ÅSUB, 2004c).

Although Åland is normally classified as a peripheral rather than as a growth-centre region (see e.g. Haapanen, 2002), Åland behaves much like a growth-centre in respect of migration, although on a miniature scale. An important factor enhancing migration behaviour in respect of Åland may have been the expansion of the public sector (Kinnunen, 2005).

Since Åland is a very small region in population terms, small absolute changes in the number of migrants may produce major shifts in the structure of the population in the long run. Therefore, migration is of major importance as a determinant of the basic amount and quality of labour supply. With no more than 13,000 persons belonging to the labour force, the absolute number of jobs with similar qualifications is reduced (ÅSUB, 2004a).

A study based on a mail survey directed to in- and out-migrants showed that among the native Ålanders the young are over-represented among those out-migrating from Åland, while the retired make up a considerable part of total in-migrants (Brunström 2003), which concurs with the statistics from later years. These results look com-

patible with the life-cycle model of Althaus (2004), where for a part of the population, migration to other regions during the period of working age, and returning after retirement, was an optimal decision.

Another important feature of the Åland labour market is its comparatively low level of dynamics in labour market terms. Böckerman and Maliranta (2001) studied the structure and evolution of Finnish regional labour markets in terms of gross job and worker flows using establishment-level data covering the years 1990–1997. According to almost every indicator included in their study, Åland showed the lowest level of structural change. It seems then that employees invariably remain in their posts with few career changes. If the job reallocation process does not take place inside the region, migration thus becomes more important as a means of career development.

### *Urbanisation – Counter-Urbanization in the Region*

During the 1950s and 1960s, Åland was afflicted by a wave of emigration. The labour market situation was severe, due in the main to decreasing employment in the agricultural sector and to the rapid process of urbanisation. The municipalities in the archipelago were most severely affected. After 1970, population development has however generally been positive for Åland as a whole. Today approximately one in three persons living in Åland was born outside Åland, with almost 70% of these immigrants coming from Finland.

While, after 1970, population levels in the larger countryside municipalities on the main island have seen relatively strong growth, population levels in the archipelago's municipalities have continued to decline. At the end of 2001, the lowest level yet was reached, seeing a population of only 2,318 people living in the archipelago (ÅSUB, 2005a).

In recent years then the real winners, in terms of the relative as well as the absolute size of the municipal population, have been those municipalities in the vicinity of Mariehamn. The three municipalities closest to Mariehamn increased their population by some 80% from 1970 to 2004. As all of these municipalities are directly connected to the expansive labour market in the economic and administrative centre of Åland, their growth is in reality connected to the growth of Mariehamn, though they of course remain outside the administrative borders of the town. This process of expansion has since been extended to the municipalities beyond those in the immediate vicinity of the town, and now affects all slightly larger municipalities within commuting distance of Mariehamn (Hovgaard, Eythórsson & Fellman, 2004).

# The Shipping Sector and the Archipelago Affect the Labour Market

## Labour Market Characteristics

Since the economic slump of the mid 1990's, the employment situation in Åland as a whole has been very good. One reason for this is the islands' geographical location, close to a number of important markets. Thus, the labour market, measured by the number of employed persons in Åland, including those employed at sea, grew by nearly 13% in the seven-year period from 1995 to 2002. The unemployment rate has moreover, in recent years remained low, with the open unemployment rate currently at 2.3% (2005).

In spite of this, mis-matches between those in search of work and job vacancies remain. A long-term need for staff in health and medical care, as well as education is a problem that Åland shares with the rest of the Nordic countries. Most of those unemployed are found among students and career changers, within the administrative sector and in the transport sector. This situation will almost certainly become even more challenging however, if detrimental changes occur in the shipping sector (ÅSUB, 2004d).

The main parts of Åland may be defined as sparsely populated areas with some structural problems. However, one of the more positive conditions for development is the opportunity to commute across the mainland of Åland. Due to the growing number of jobs in the Mariehamn-area, the employment situation is therefore seen as good in the countryside, as well.

The production structure of Åland's economy is dominated by shipping, which accounts for approximately one fourth of those employed in the labour market, while manufacturing accounts for only about 10% of total employment. An important part of the manufacturing sector is the food processing industry. Food processing activities also form an important local down-stream market for the agricultural and fisheries sectors.

Thus, despite their relatively modest size (approx. 5.5% of the employment), the primary industries play a vital role as providers of inputs to the food industry. Furthermore, this sector also has an important role in a regional policy context due to the fact that it still provides a substantial part of the local employment in the more peripheral parts of Åland.

Due to the relatively large share of employment within the shipping sector, a particular feature of Åland's labour market is the rather significant difference between the figures for employed persons living in Åland (13,107 in 2003) and those employed in Åland's labour market (15,069 in 2003). As such, Åland's shipping companies offer more work places than the local labour market is able to provide. A significant number of persons, often living in the neigh-

bouring regions of Finland and Sweden, are thus employed by Åland's shipping companies, particularly on the numerous passenger ships (ÅSUB, 2005b).

## Private and Public Sectors

Due to the fact that Åland is composed of 16 municipalities in addition to the regional authorities, the public sector has always been of great significance in employment terms, particularly for women. In 2003, 2,100 persons were employed in the municipal sector alone.

Since the economic crisis of the first half of the 1990's, Åland has experienced a period of relatively fast economic expansion. Growth was particularly high in the public sector, which grew by about 23.5% between 1995 and 2002. The public sector reaches levels in excess of one third of the total labour market.

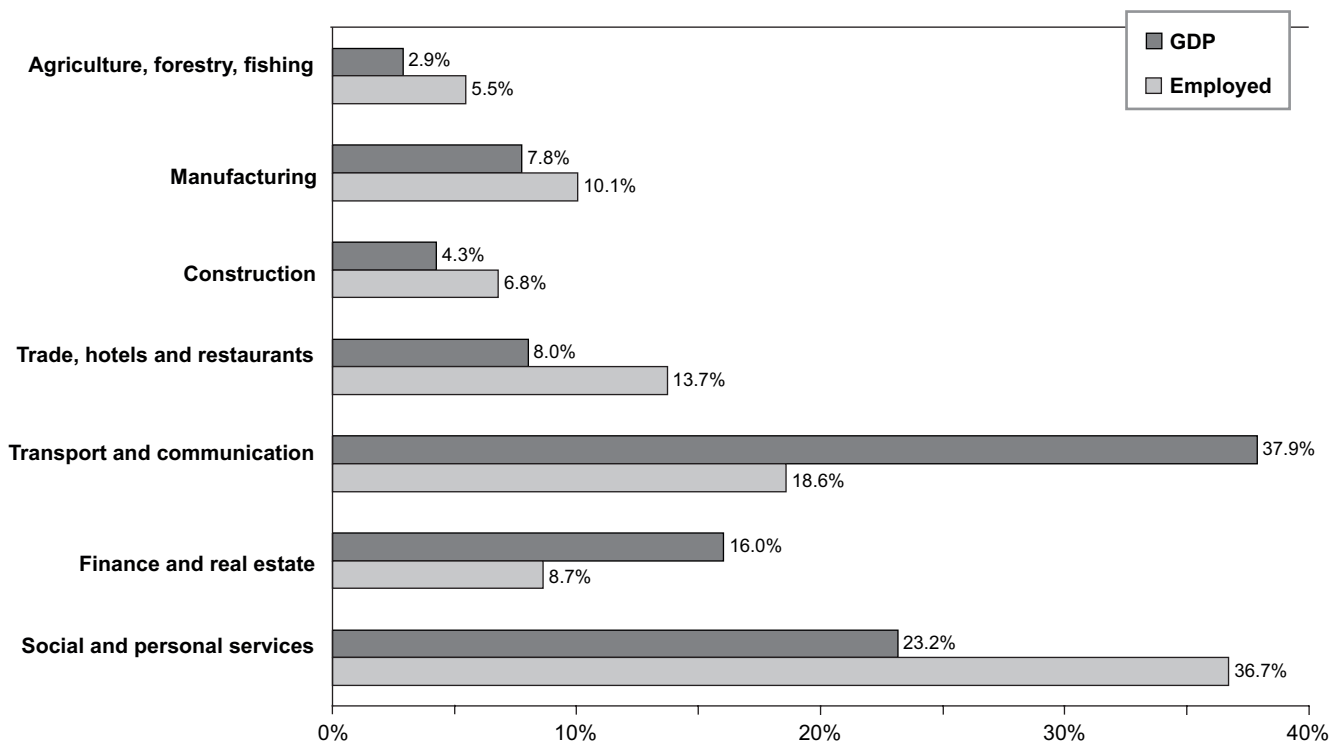
## Industrial Structure

Åland is highly dependent on the exchange of goods and services with surrounding regions. In many sectors, there is a low degree of self-sufficiency, while the local market is also limited. Åland's geographical position, existing as it does between two economic centres, entails certain advantages but also makes the islands somewhat vulnerable. On the one hand, two large market regions exist close at hand. This profoundly benefits the shipping industry. On the other hand, Åland is dependent upon the existence of good economic conditions in these adjacent markets, while population movement varies with fluctuations in the economy.

Through learning to cope with its geography, Åland has succeeded in turning its comparative disadvantage of geographical isolation, into a comparative advantage in the maritime sector. Already in the 19th century, Ålanders complemented their income from agriculture by entering the fisheries sector, and by selling their products to the neighbouring population centres. At the end of the 1950s, modern car ferry traffic started, which led to the radical transformation of the once agrarian society into a modern service-based economy (ÅSUB, 2002a).

To date, Åland's GDP per capita ranks among the highest in the Finnish regions, and surpasses the Finnish average by, approximately, one third. National income is about 25% higher than the Finnish average (Statistics Finland, 2004). Even compared to the Nordic countries more generally, Åland has the highest GDP per capita, measured in purchase power parity (PPP) euro (ÅSUB, 2004a). The production structure of Åland's economy is dominated by shipping, which accounts for just over one third of value added and 20% of employment (figure 8.2 on next page). Compared to other shipping clusters, Åland is highly fo-

Figure 8.2 GDP and employed persons by industry 2002 (percentages of total).



cused on the shipping companies themselves, and especially on passenger shipping (ÅSUB, 2002a).

Somewhat simplified, the shipping industry can be divided into three segments: passenger, cruise, and goods transportation. The passenger ferries serving Åland, Sweden and Finland play a key role in the land-based tourism industry as well as being an employer of both on-board and land-based staff. The cruise ships are floating entertainment palaces, which also provide many on-board jobs and good business opportunities for land-based suppliers, but have little impact on land-based tourism. The cargo shipping companies operate worldwide. Their crews are recruited on the global labour market, though the officers are generally locals.

Manufacturing generates only eight per cent of total value added in Åland. However, it does include some high-tech firms in the plastics and engineering industries with worldwide exports. Service industries, i.e. all those out with primary production, manufacturing, and construction, generated around 80% of the value added in 2002.

In 1997–2001, the combined productivity volume (GDP) of the Åland economy grew by almost 9% in real terms. Considering only the private sector, growth was almost 6% during this five-year period (ÅSUB, 2004a).

Shipping is the most important industry for Åland in gross production terms. In the last few years however, the competitiveness of the shipping trade has been greatly reduced, while the registration of ships under foreign flags of convenience has also become much more prevalent. These changes pose a clear threat to Åland's labour market and

economy. The most important changes in the working environment of the passenger shipping companies can be identified as follows (Kinnunen, 2005):

- lowered alcohol taxation in Finland, and later on probably in Sweden as well
- relaxed restrictions in private imports of duty-paid alcohol
- increased competition in the Nordic sea freight markets
- increased competition in terms of passenger traffic in the Baltic Sea.

Without actually addressing the issue of the distribution of growth among different industries and types of companies, it can nevertheless be stated that Åland's economy is characterized by the existence of a few relatively large shipping companies with other significant actors in the manufacturing, financial and trade sectors on the one hand, and by a great number of micro businesses, mostly in the service sector (including tourism), but also in manufacturing and construction, on the other. Many successful small businesses began as suppliers to the shipping companies, e.g. in computing, electronics, and other areas of technology. As such, the shipping industry opens up a network of international contacts and creates export opportunities. The company structure of Åland tends to lend itself to the maintenance of very few medium-sized companies as compared to the situation pertaining in the neighbouring economies. In consequence, economic growth in the private sector depends upon the expansion of a few, by Åland

standards, very large firms and business start-ups and the growth of a considerably broader layer of very small companies.

This means that the two main categories of regional growth regimes identified in economic research – entrepreneurial growth based on small business as well as routine economic expansion based on more established larger companies – are also of significant importance for the growth in Åland (ÅSUB, 2004:d).

As such then, micro businesses dominate the economy of Åland. The typical firm being a family business with just a couple of employees, busy within different activities, or even within different industries. When it comes to business start-ups, most new enterprises are to be found within the social and personal services sectors, and in trade, hotels, and restaurants, or in the construction sector. Thus, most business start-ups are related to the expansive part of the economy.

## Labour Force Characteristics

### Employment

The employment ratio in Åland has been very good since the late 1990s. The ratio for those elements of the population aged 16–64 years was 78.5% in 2002. Men are to a larger extent self-employed, also making up the majority of blue-collar workers. Among the upper-level white-collar workers, women are approaching the same share of the workforce as men; while among the lower-level white-collar workers the majority are women (ÅSUB, 2004a). In terms of economic sector, women predominate in the

public services, while the transport sector is the most important for men in employment terms. Men also form the majority in the construction, manufacturing, and energy industries.

Due to the large number of tourists who visit Åland in the summertime, the service sector is dependent on seasonal workers from outside Åland during this period. Another characteristic of the Åland labour market is the existence of a linguistic border between Åland and Finland. Whereas 93% of Ålanders speak Swedish, the same share of population speaks Finnish in the mainland Finland. This issue can therefore have an effect on the migration and employment situation in some sectors.

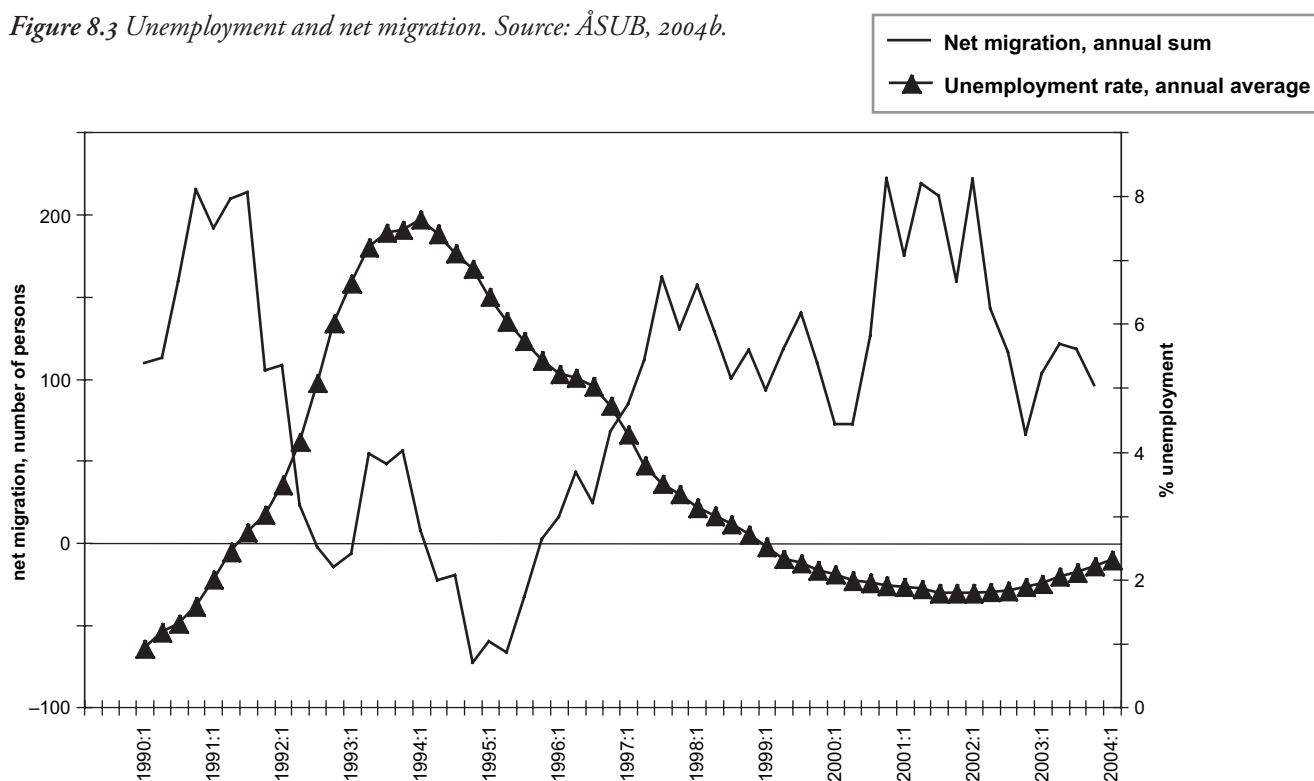
### Unemployment

The unemployment rate has traditionally been significantly lower in Åland than in the rest of Finland, and currently indicates practically full employment (2.3% in 2005). Among those unemployed, the situation is slightly better for the women, who have an unemployment rate of 1.9%, compared to 2.6% among men.

Migration has turned out to be a way of escaping the limitations of the small size of the labour market, as mentioned above. The unemployment rate and net immigration correlate strongly, as can be seen in figure 8.3. In the worst years of the recession, net migration was negative, though, net migration has risen to considerable levels in periods of high economic activity.

The dip in total net migration in 2000 can partly be explained by the situation in the housing market. As the economic recovery took off in the late 1990's, housing pro-

Figure 8.3 Unemployment and net migration. Source: ÅSUB, 2004b.



duction remained in a deep downturn, and did not return to normal until the first years of the current decade (ÅSUB, 2004d).

However, among young people, the employment situation is not so good. Today the unemployment rate for young people (under the age of 25) is 4.0% (average 2005). During the recession of the 1990's however, the unemployment rate for this age group exceeded 20% in some periods.

### *Increasing Education Level*

Most local youths who go on to pursue university-level studies leave Åland for a while to attend a university in Sweden or Finland. Currently, the majority of young Ålanders prefer to attend Swedish universities. About 71% of the university-level students studying outside Åland were enrolled at Swedish universities, while 24% studied in Finland (ÅSUB, 2004a). Today Åland also has its own college of higher education: the Åland Polytechnic offering a wide range of courses leading to vocational degrees.

Despite the fact that the share of the population attending university is increasing continuously, the education level in Åland is still relatively low, especially among the elderly population. Among people aged 25–29 more than 90% have a secondary or tertiary educational qualification. In general, the educational level of Ålanders is somewhat lower than that of Finland. However, the educational level of the non-native inhabitants of Åland is higher than that of the native population. Migration has thus been of some importance in the building of the human capital stock in Åland.

### *Marginal Groups*

The employment situation in Åland, with extremely low unemployment rates, makes those marginal groups that do exist, *really* marginal. The low unemployment rate, together with the existing work-oriented way of life seems to stigmatise the unemployed on the Åland labour market quite effectively. In a focus group study by Kinnunen (2004) among personnel managers, representing both private and public sector work places in Åland, the personnel managers claim to avoid rejecting people who currently are, or who have been, unemployed. They do however also admit that unemployed applicants have to explain their unemployment in an acceptable manner in order to be recruited.

According to the Employment Office<sup>1</sup>, there are actually six different groups that run the risk of being marginalised. These groups overlap to some extent and there may be multiple problem situations. Even though the groups are very small in real terms, the employment office has taken active measures directed to each of these groups.

<sup>1</sup>This section is mainly written on the basis of an interview conducted with the Director of the Employment Office, Lasse Karlsson.

Firstly, we have a group with alcohol and other drug problems. This group is a traditionally marginalised group on the labour market and the persons have to be treated and free from their addiction before they are fit for the open labour market. Efforts are undertaken here in close collaboration with the "A-centre" and other social workers. Meanwhile the persons are engaged in different labour market projects, such as the "Emmaus"-projects and environment protection projects, to help them maintain a daily structure and routine in their lives.

Secondly, we have a group of people with other kinds of social and psychological problems. Here, for instance, we find people with 'burn-out' symptoms or who are otherwise suffering from stress-related ailments. This group is today steadily increasing in number. Otherwise, those on 'sick leave' are not a very large problem in the Åland labour market, as only just above 1% of the population, aged 16–64, were reportedly on extended sick leave during 2003.

Thirdly, there are persons with reduced working capacity. These persons were, until a few years ago, not in the open labour market, but rather in sheltered employment. This group includes for instance people with learning disabilities. Today the ambition is to engage them on the traditional open labour market, something that requires special effort and support.

The fourth group consists of immigrants with different cultural heritages and with insufficient skills in Swedish. This group is quite new, already relatively large, and growing still further. Most of these people moved from neighbouring regions due to the prevailing employment situations there, and have not migrated to Åland as refugees. To better meet their needs, a revised integration system is required. Some language proficiency and basic social studies will be needed before they can enter the ordinary labour market in a small society such as Åland.

Unemployed people under the age of 25 form the fifth group requiring significant additional effort to avoid social exclusion. The unemployment rate among these young people is however not very high, at around 4.0%, and is generally not increasing. Yet, while there are very active measures directed towards the youngsters, people who have not been in the labour force and have not had an ordinary employment history run a higher risk of being excluded.<sup>2</sup> In addition, there are young people that are not employed, while remaining outside the measures of the employment authorities, due to the system of unemployment benefits.

The last, very traditional risk group are the elderly. Even for people aged 50 *plus*, it is harder to find gainful employment after a prolonged period of unemployment. In spite of numerous campaigns moreover, attitudes in

<sup>2</sup>See the discussion on weak and strong ties (Granovetter, 1983), chapter 2.

Åland today are not very positive towards this group. Even though the situation might be even worse in our neighbouring regions (the migration structure indicates that), there is discrimination against this part of the labour force.

### *In and Out Commuting*

Given the already stated problems in respect of the internal transportation system, commuting to the main island is not possible for the majority of the archipelago population. In addition, the archipelago region is also geographically dispersed, has an ageing and slowly shrinking population, combined with an economy that with few exceptions, lacks the type of companies and work places that currently dominate the growth sectors of the contemporary economy. The combination of demographic and economic problems will require that major changes occur if the communities of the archipelago are to survive.

Furthermore, the archipelago is not a homogenous region, but in at least five of the archipelago municipalities, the municipality itself may be regarded as a functional labour market.<sup>3</sup> In one of the municipalities, there are two functional labour markets. The only possibility for commuting is to work on passenger and cargo ships or on the local car ferries in the archipelago area.

Besides working in the shipping sector, daily commuting between Åland and its neighbouring regions is not a real alternative. This is why Åland can be labelled an *insular income system*. There are, however, examples of weekly commuting between Åland and the neighbouring areas. The difficulty in combining such a work pattern with family life is best illustrated by one of the interviewees who worked in Sweden: 'It became harder to commute when we got the children'.

### *Quasi Market Solutions*

Public discussion of the informal economy in Åland is currently in its infancy. Questions about the employment situation within the construction sector have however arisen every now and then, although, the situation has

changed somewhat in the last few years. The Finnish government implemented a new type of tax deduction in 2001. Thus, it is now possible to make a tax deduction for employment in households. Due to this new system, taxes generated from small construction firms have increased and the formal employment has grown.

Another increasingly prevalent phenomenon is that of hired staff from companies in the Baltic States. Firms that hire staff from these countries to work in Åland do not need a specific permit. As a result, some companies in Åland have formed subsidiary companies in for instance Estonia and Latvia. These subsidiary companies hire labour for projects in Åland, using Estonian (or other) labour-management agreements and wages.

This new feature of the labour market implies that the connection between new jobs and in-migration is not as clear-cut as it was previously. Guest workers that spend longer periods in Åland, without permanently moving to the area, have become more common. In addition to the construction sector, these workers are also quite common in the primary sector and in the food processing industries.

Additionally, trade union officials point to another growing problem, now common among seasonal workers. Some micro businesses attempt to pay wages, salary, and other payments to their seasonal workers that are below legal levels. In the main, it is young people and immigrants that are most often subjected to this phenomenon, though others are now increasingly affected. It is not a question of whether these businesses can afford the payments, but rather more of them simply trying to take advantage of less informed, weaker groups in the labour market.<sup>4</sup>

Across the Åland countryside and archipelago region, local entrepreneurs often combine several activities, such as small-scale farming, fishing or fish farming, tourism, handicrafts, and micro industry. For instance, tourist businesses in the countryside are generally small; many are designed simply to provide additional revenue streams to traditional family farming.

<sup>3</sup>A functional labour market region is defined as a region where daily commuting is possible.

<sup>4</sup>Source: Interview conducted with the Director of the Employment Office, Lasse Karlsson.

# The Åland EU-Programmes Strongly Influence Policy Interventions

## Regional and Rural Policy Programmes

Most current policy programmes and development plans are connected with EU funding. The only additional programme is the Åland Government's Tourism Strategy 2003–2010. The overarching objective of the strategy is to ensure that Åland remains an attractive tourist destination and to promote the long-term sustainability of the industry while ensuring that it benefits all parts of the Åland islands.

Åland obtains funding for its own EU programmes. That applies to the Objective 2 and Objective 3 programmes, the Rural Development programme, and the Structural Programme for the Fisheries Industry. Åland is also a part of the Interreg III A Archipelago Programme together with the archipelago along the coast of Svealand in Sweden, of Finland proper and West Uusimaa.

The two EU programmes covering the core area of this research project are the Objective 2 and Objective 3 programmes. The main objectives of the Åland Objective 2 programme are to diversify the archipelago's one-sided industrial structure and to improve less developed businesses in the rural areas. These objectives are closely related to the fact that the majority of businesses in growth sectors are located in Mariehamn, which is outside the Objective 2 area.

The specific Objective 2 challenges of Åland are mirrored in the overarching objectives of the programme: to create 200 new jobs, as well as 30 new businesses and to provide for an increase in regional GDP/*per capita* from 70 per cent to 75 per cent of the EU-15 average. Furthermore, there are two non-quantifiable programme objectives: to contribute to the diversification of the regional industrial structure and to encourage a population increase in the archipelago.

The overarching objective of Åland's Objective 3 programme is to increase the competitiveness of businesses and organisations through contributing to the creation and maintenance of a more skilled labour force in Åland. This objective relates to formal as well as informal skills. A further programme objective is to reduce the number of people that risk marginalisation in the labour market. To achieve the aims of the Objective 3 programme there are two strategic measures: 'skills development' and 'labour market integration' gathered together under the umbrella heading, 'Occupational skills through lifelong learning'.

## Labour Market Policy

The labour market measures are connected to the Government's industrial and, to some extent, educational policies. The measures in the labour market are also related to the

activities within the EU structural fund programmes in Åland, mainly the Objective 3 programme on social and labour market cohesion.

The general objectives of the Government as regards the labour market policy are as follows:

- Low unemployment rate
- Higher employment ratio
- Balanced labour market development in all regions
- Equal labour market opportunities for men and women
- Reduced exclusion of weak groups (from the labour market).

The most important policy implementation agency is the Government's Employment Office, a separate 'jobcentre' connected to the department of industry and trade. Another related actor connected to the labour market policy area is the Government's Centre for Vocational Guidance. According to a forthcoming bill from the Government, the Vocational Guidance centre and the Employment Office will be merged into a new more powerful Employment Centre from 1 March 2006.

In addition to these more traditional labour market measures, the Government of Åland has initiated an information project, "*Arbeta & Bo på Åland*" (Working & Living in Åland) – a project aimed at encouraging emigrants and students to return to Åland. Another initiative "*Företagsbörser*" (enterprise/company exchange), established by the Åland Chamber of Commerce and the Åland Entrepreneur Association, offers a service free of charge, a "brokerage agency" for business contacts in Åland. The main aim of this initiative is to help persons interested in taking over and running businesses to make contact with persons ready to sell their businesses and firms.

## Top-Down vs. Bottom-Up Development Processes

Åland's size, and in particular its special public management and governmental structure bring both advantages and disadvantages with regard to the implementation of policy programmes. One disadvantage is that a region with such a small population as Åland often has difficulty in finding enough qualified enterprises and organisations to be responsible for the necessary development work.

From a public management point of view, the fact that several government levels are combined in the Åland government and administrative board, and that there are a comparatively limited number of experts can also be seen as a problem. On the other hand, one advantage of Åland's size is that it is relatively easy to attain an overview of the



policy situation or to gather together all of the relevant officials and other actors together at one time.

Most of the development ideas have, traditionally, been generated from within the organisations and companies themselves, often in a 'bottom-up' fashion. This, it is felt, ought to contribute to favourable conditions for a successful implementation of the ideas. Another aspect of the "bottom up" tradition is that it is quite easy to engage the private sector in development projects, if they can see themselves benefiting from it.

Regional and economic policy in Åland are not currently characterised by the tradition of evaluation. Few formal evaluations have been carried out, most of them within the EU policy framework. Two evaluations of immediate interest covering the core area of this project are the mid term evaluations of the Objective 2 and Objective 3 programmes (ÅSUB, 2003a and 2003b).

According to the mid term evaluation of the Objective 2 programme, the majority of the project ideas have been generated from within the project owner organisations, in

a 'bottom-up' fashion. This means that they are firmly embedded in the organisations. The programme has created the conditions necessary for the realisation of larger projects and surveys than would otherwise have been possible. The programme has also assisted in identifying the actors that contribute, in terms of support functions, to the project owners. EU funding has resulted in businesses and organisations being able to realise activities that would otherwise not have happened, or would have taken much longer to achieve.

According to the mid term evaluation, the Objective 3 programme has facilitated both broader and deeper mapping of issues and more long term and profound skills activities than would otherwise have been possible. Businesses and organisations have thus also been given the opportunity to realise longer-term, tailor made skills development programmes and thereby more profound changes. The programme has also resulted in organisational and structural changes within businesses and organisations.

## The Åland Income System – a System for People Ready to Create Their Own Jobs

This section is based on a number of life story interviews carried out in Åland. The aim here was to combine individual experiences with that of the institutions and structures of the income system dealt with thus far within the context of this chapter. By conducting the interviews we are able to trace the factors that facilitate or hinder transitions within the income system. Such information would not be available without focusing on individuals. The information gained through the interviews illustrates the processes and indicate the issues that are discussed against the backdrop of the models and concepts presented in chapter 2. Further information on the methodology of the biographical working life interviews can be found in chapter 1.

### Lessons Learned from the Biographical Working Life Stories

The life story interviews in Åland were carried out in the period, August to September 2004. All in all, nine people were interviewed; five men and four women aged 35–55. Four interviews were carried out in the archipelago region, three in Mariehamn, and two in the countryside of the main island of Åland.

The interviewees represent different kinds of occupations and backgrounds and are grouped in the categories of our project. Some of the interviewees would have fitted in to more than one category, but are placed only in one as

*Table 8.1 Characteristics of the interviewees*

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#### Lower skilled

- Shop-manager/entrepreneur, mental health care assistant
- Artist, illustrator
- Cook, musician

#### Key professional

- Managing director, with job experience from shipping sector

#### Born locals

- Entrepreneur in tourism, salesman at a travel agency
- Entrepreneur / masseur & "keep fit" instructor

#### Newcomer (working in a trade mainly dependent on the regional market)

- Self-employed consultant

#### Newcomer (working in a trade not dependent on the regional context)

- Writer
  - Self-employed in computer business
- 

listed above. Furthermore, not all of the occupations and employments that the interviewees have had are mentioned.

A common finding of the interviews was that the level of formal education, to some extent at least, was affected

by the status of parents of the interviewees. The parents normally want their children to become 'more qualified' than themselves, and become something 'useful', i.e. a qualification that makes it easy to find a job. Moreover, throughout their working-life, the work situation is somewhat adjusted to the family situation.

It is interesting to note that so many of the interviewees have had the courage to change their situation, to come to new decisions and to try to earn their living in new ways. To many of these persons, being unemployed is no real alternative. Unemployment is not socially acceptable when the overall employment situation is so good. For instance, four of the interviewees have during at least one period of their working life, had their work place and their family separated by the Åland Sea.

In our survey, seven out of the nine interviewees have to some extent in a certain period of their life created their own jobs. Indeed, as one of the interviewees put it: 'You always need to create the necessary conditions for survival'. Some of them have also had other incomes at the same time.<sup>5</sup> Multiple job holding is a common feature in Åland. Regardless of whether the persons have been employed or self-employed, the social networks and different kinds of personal relations are of significant importance in the kind of small society that Åland represents. This relates to the importance of social networks for gaining information about new job opportunities, an issue that is further discussed in chapter 2. One of the interviewees highlighted the role of social networks: 'I applied for some jobs but I didn't get them. Instead I was offered jobs by people I know.'

Another phenomenon that can be understood from the interviews is that the competition between employers is not very tough. As such, some employers have not been very keen on staff welfare or training, or on the skills development of their employees. One interviewee stated: 'Some employees are old-fashioned when it comes to staff development.' The situation has, however, been changing over the last few years.

In conclusion one might say that, especially for the newcomers, Åland does not represent a career choice *per se*, but rather a choice of *life style*. Some parts of the Åland labour market do not operate as a true market. There are limited opportunities and alternatives.

Most obstacles and limitations are to be found in the archipelago's labour market. Indeed, it is doubtful whether it can be labelled 'a market' at all. The archipelago region is small in respect of the number of inhabitants, and thus the labour force is very small. In addition, the region is spatially dispersed over many inhabited islands. In the archipelago region you have to be prepared to create your own job or your own way of earning a living. In addition, you have to be prepared to work with different jobs and occupations at the same time. Independence is one very important characteristic of the nature of working life in this region. Most people do not really want any 9–5 job, and they do not want to be on duty day and night. The desire for independence was expressed by one of the interviewees in the archipelago: 'It is more important to do what you want to do, than the form of employment.'

Another feature of this small group of islands is that there are some types of work, some duties that simply have to be done. That means that somebody has to teach physical training in school, someone has to take care of the library and someone has to do the dishes in the restaurant in the harbour in the middle of the summer, if no one else wants to do it. Maybe this feature could be called a semi-market solution? Alternatively, as one of the interviewees put it: 'It is the way the work situation is on a small island. There are things that have to be done.'

Indeed, one has both to accept, and to adjust to, the social and institutional circumstances as they are given, especially if one is a newcomer. Otherwise one will have to move. One of our interviewees stated that there is a two-year period of adjustment. If people have not managed to accept Åland for what it is and thus to 'fit in' within two years, they usually move away.

<sup>5</sup>These findings correspond to the result from a study carried out by Tervo (2005). According to that study self-employment is an important alternative especially in those areas, which have fewer paid-employment opportunities. For many individuals in that kind of locations, transition between different labour market states becomes necessary. The study demonstrates that self-employment dynamics are clearly more common in rural labour markets in Finland.

# Conclusions

Based on the combination of structural and individual perspectives on the insular income system in Åland it is possible to conclude with some indications of the facilitating factors and barriers in the system. Which factors contribute to a sustainable employment system and which provide obstacles for such a system in Åland? For analytical purposes these factors are divided in four main categories looking at both the infrastructural and institutional level and the regional and individual level. Finally, some soft policy recommendations are derived indicating possible policy orientations to promote a sustainable employment system; that is to say, a system where transitions to and from the labour market are as smooth as possible.

## Permissive Factors for Sustainable Employment

This study has pointed to some of the permissive factors in the Åland employment system. These include the small-scale island labour market, which has advantages as well as disadvantages regarding sustainable employment. The permissive factors or opportunities listed below are grouped into two categories corresponding to the more infrastructural factors and those regarding the regional traditions, respectively.

### *Infrastructural and Institutional Factors*

- Geographical position between two fast growing metropolitan markets, the Stockholm region and south-west Finland
- Strong market position within certain segments of the international shipping and tax-free wholesale industry, the shipping cluster provides opportunities even under foreign flags
- Well-developed public soft and hard infrastructure
- Home rule, high political ambitions in certain segments and high employment goals in combination with a financially relatively strong governmental sector
- Well-developed financial institutions, capital market and generally high liquidity in the consumer as well as the business sector and thus, good supply of risk capital
- The supply of education in Åland and neighbouring regions
- High quality of environment and general living conditions

### *Regional Trends and Traditions*

#### *Supporting the Employment system*

- Easy to get an overview of changes from responsible authorities and persons, due to the small-scale nature of society, good conditions for quick decisions
- Growing population, in-migration

- Internationally successful firms within parts of the software, material engineering and food industry
- Long term growth trend in labour demand, low unemployment, high employment ratio
- Strong tradition of self-employment and small-scale business
- Relatively strong social networks countervailing rapid marginalisation
- Employees are, by tradition, flexible and loyal to their employers

## Obstacles to Sustainable Employment

The study has also exposed some obstacles to sustainable employment in Åland. The identified obstacles are grouped into two overlapping categories focusing on infrastructural and institutional factors and individual and regional factors respectively.

### *Infrastructural and Institutional Obstacles*

- External and internal communications and transport problems due to the geography
- Labour market fragmentation due to internal geography, particularly for the archipelago
- 'Innovation export/brain drain' – weak or non-existent R & D and innovation support system
- Housing prices, housing supply and a general high consumer price level
- Institutional barriers for foreign labour and Foreign Direct Investments (FDI)
- Increasing internationalisation makes some parts of the Åland economy more vulnerable to acquisition and to the relocation of production. The adjustment processes might be tempting, due to the limited opportunities available in a small scale economy
- Small market – few opportunities within each occupation and within some segments of the labour market

### *Regional Trends and Patterns*

- Restricted mobility within various segments of the labour market
- Labour market mis-matches, including immigrants and language skill problems
- Education levels and profiles do not match labour demand
- Difficulties in attracting young Ålanders to move back to Åland after education and some job experience outside Åland
- The younger generations are not as keen on being self-employed as previous generations
- Wage levels do not attract highly qualified newcomers

## Suggested Policy Orientations for Sustainable Employment in Åland

In this chapter we have analysed the Åland labour market context, focusing specifically on the transitions directly related to the labour market. The whole income system of Åland is summarised in *figure 8.4*. Åland has a relatively high employment ratio. As regards a new orientation in employment policy, therefore, some of the boxes of the income system in the figure are not of the same importance as they might be in other regions. The unemployment rate is low and the sick leaves have thus far not been a particular problem. The exits, in the form of migration, are positive in the long run, thus implying a flow of net immigration to Åland.

Furthermore, the retired are no longer a part of the ordinary labour market and individuals on parental leave make up a natural part of the transitions to and from the labour market. From a long-term point of view, birth rates need to increase to keep the labour market running, and thus, the share of parents on paternity leave would need to increase as well.

That leaves the 'education' box, the 'alternative income box', and the 'labour market box' itself open to further discussion. It is towards these boxes that most policy suggestions are directed. The informal or quasi markets are currently undergoing significant change, e.g. due to the

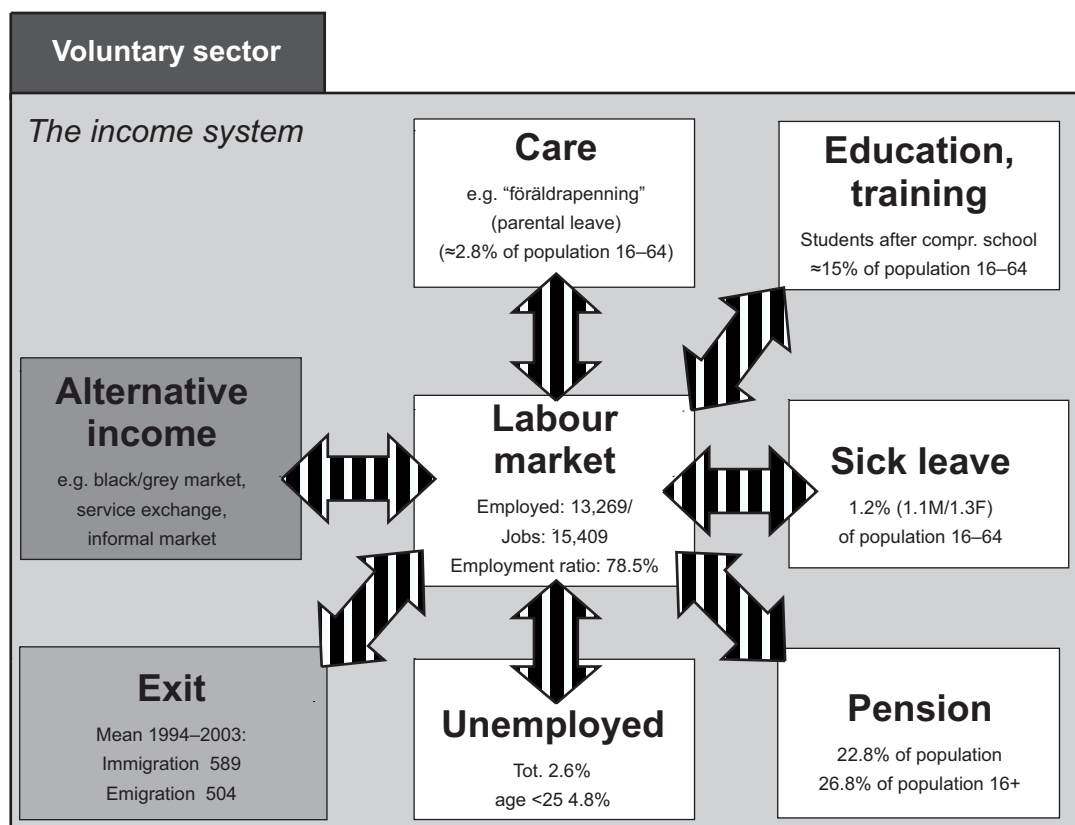
emergence of a new international context. In this box we have not been able to quantify these processes, but have rather focused on what exactly it is that is new. When it comes to education, the average educational level in Åland is still relatively low, and thus mis-matches remain in relation to demand in the labour market. In addition, some of the policy recommendations support marginal groups of immigrants and the unemployed. The political ambition in Åland is full employment.

The policy orientations that may be suggested for a sustainable employment in the region might be categorised in *two* types of policies. *First*, we have the type of policies and measures that are directly related to the labour market system of Åland. These policies can at an overarching level be defined as labour market policy. *Secondly*, we have the kinds of policies that concern the context of the labour market, i.e. the infrastructural and institutional conditions, of which the labour market is a part. Thus, these recommendations reach beyond the scheme outlined below, and apply to the conditions under which the labour market operates.

### Labour Market Policy Recommendations

A condition of implementing a successful policy orientation, and of meeting the challenges of the future labour market, is *ensuring close collaboration and cooperation be-*

*Figure 8.4: The Åland transitory income system 2003/2004. Source: Based on Figure 2.1 in chapter 2. (Dahlström & Persson, 2005, adapted after Schmid, 1998)*



tween different sectors and between different policy programmes and measures. The authorities and sections for education, for promoting industry and economy, for social policy etc., have to work more closely together. As such, labour market policy can be characterised as a cross-sectoral policy.

*To reduce mismatches in the labour market the education system and the supply of training have to be adjusted to the labour market demand and labour market requirements.* The bottlenecks that precipitate shortages in the supply of educated persons have to be solved. One solution might be more flexible forms of educational supply.

Another way of reducing these mis-matches in some segments of the labour market is to *increase the complementary part-time job combinations*, i.e. people combining several occupations and skills. A policy aiming at giving a new dimension to the earlier fashions of multiple job holding. One component of support for this strategy is to train people in new technology applications in different kinds of occupations and jobs. As such, new technology should not be seen as being exclusively the domain of the ICT sector.

Regarding the new features of migration, *revised integration systems are required to meet the needs of newcomers from different countries and cultures.* The immigrants have to be provided with the opportunity to learn Swedish and to acquire some knowledge of their new society, in order to become attractive in the ordinary labour market.

*Finally, special labour market policy efforts will be required to cope with the future challenges of the archipelago region.* Most of the policy recommendations apply to the archipelago region as well, but adjusted supplementary measures will also be required, taking this region's special conditions into consideration. Some of these efforts concern the infrastructural and institutional policy recommendations outlined below.

Implementing the labour market policy recommendations, the policy makers must not lose sight of the "bottom-up perspective", which is of great importance for a fruitful development of the regional labour market, where such "bottom-up" traditions are rather deeply rooted in the local culture. Furthermore, in the new labour market arena, transitions will be more frequent; people changing careers, leaving employment for further education and moving careers rather more often than before. This is a perspective that employers also must become better accustomed to, by, for instance, not automatically having a negative attitude to job seekers with a "transition history".

### *Infrastructural and Institutional Policy Recommendations*

A further precondition for the development of Åland's economy and labour market is a system of *continuously good internal and external communications, which is able to adjust to the future demand of the economy.* The possibility of combining different types of services will be of special interest here; local and external ferry services, and international flights. As labour mobility and migration increase, the need to travel and communicate in different ways will also grow.

Secondly, *the cooperation within the public sector, e.g. between the small municipalities of Åland, and between the municipalities and the home rule authorities has to be closer.* Åland has 16 municipalities and several authorities within the home rule system. Thus, while it is administratively diffused, the level of collaboration between the authorities has to be tight in order to increase the level of public efficiency.

As the housing market is a significant obstacle to immigration to Åland, *the public sector ought to guarantee housing production at a steadier rate.* Traditionally, housing production dropped considerably when the economy is in a down turn or in a recession. In a recession however, price levels within the construction sector are usually more favourable so it would seem to make sense to employ a counter-cyclical building policy at such times.

Moreover, the public sector has to create *supporting policy systems and an innovative environment in order to stimulate business networking outside Åland and the development of innovations* within the core areas of the Åland economy. Åland's achievements in the sphere of R & D are few in number. Concerning business networks, Åland does however have a solid ground on which to develop a further internationalisation of its business sector.

Even though the public sector supports innovation and international networking across a wide range of sectors, Åland's economy demands a *selective industrial policy focus, i.e. the strongholds in the shipping sector.* Focusing on a few core areas undoubtedly nevertheless affects the rest of the economy.

Finally, *efforts in relation to environmental policy must continue and be further developed,* as relocating to Åland does not really represent a career choice *per se*, but rather a choice of lifestyle to newcomers. Moreover, newcomers will be needed to fill the future demands of Åland's labour market.

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## Interviews with Key Informants

Karlsson, Lasse, Director of Employment Office

# 9. Entrepreneurship and New Business Creation in the Six Study Areas

## Business Start-Ups in Insular Areas

Fostering entrepreneurship and promoting new business start-ups as a means of improving the conditions for growth, job creation, innovation, and economic restructuring are policy fields of central interest at all governmental levels. These issues are however even more crucial for local and regional authorities in insular or peripheral areas, where unemployment rates often are high, and the labour market does not operate as a true market (Green & Hardill 2003). As noted by Bar-El & Felsenstein (1990), rural/peripheral settings score less favourably than urban ones in terms of the potential locational attributes that attract industrial development. Consequently, the chances of attracting external initiatives to rural/peripheral areas are poor. It can therefore be argued that a strategy for insular or peripheral economic development needs to be based on the mobilisation of *indigenous entrepreneurial potential* for which such settings provide a relative advantage. However, the effects of such entrepreneurial potentials are often difficult to identify in peripheral areas. For instance, many start-ups within the 'new economy' service sectors such as ICT and business consultancy, particularly the most innovative, knowledge-intensive and profitable segments of these sectors, are generally concentrated in and around the biggest cities, and have therefore not provided any significant contribution to economic growth and restructuring in peripheral areas.

Furthermore, interpreting the meaning of differences and changes in the level of self-employment is difficult, because of various conceptual and measurement ambiguities. On the one hand, a self-employed person may be a successful business owner exploiting new opportunities and inventing new products, processes and distribution methods, on the other however, self-employment may simply be the result of situational circumstance, where a given individual's income may differ only slightly from that of unemployment benefits. Moreover, the firm may not necessarily contribute to business success and local economic development. In addition, self-employment can be a lifestyle choice where the aim is not to grow a business, but to generate an income for oneself within a trade sector of particular interest. A high rate of

self-employment in an area may reflect an environment encouraging risk taking, job creation, and market development, or it may indicate a lack of jobs (Earle & Sakova 2000). Particularly, in rural/peripheral areas, self-employment is often considered as a last resort for people grasping for survival due to high levels of unemployment (Blau 1985, Sharif 1993). However, it is also worth remembering that many rural areas have a tradition of self-employment in farming, forestry, and fishing. With regard to the 'unemployment push' hypothesis, there are those who argue that it is possible to find little or no evidence for this (e.g. Carree, 2002), while e.g. Audretsch & Fritsch (1999)'s findings indicate that high levels of unemployment tend to depress the number of new business start-ups.

Other open issues dealt with here include the question of to what extent local and regional economic and employment policies should be targeted to fostering new firms, or towards fostering innovation and competitiveness in existing firms. Should support schemes be focused on "picking winners", high-tech and/or other growth sector firms, or should they be directed at encouraging the creation of larger number of new small firms of which some will achieve successful growth (Glancey & McQuaid, 2002). Often policies to encourage the start-up of new businesses rely on the assumption of a positive relationship between increased firm birth rates and subsequent growth in employment. However, according to evidence from the UK for the period 1980–1998, in some cases the relationship between new firm creation and employment change might be negative (van Stel & Storey, 2004).

This study is an attempt to collect new evidence on the ambiguous character of entrepreneurship in insular economies and to provide input to policies and strategies promoting local entrepreneurship and job creation. The study is based on a survey of new businesses in the six study areas; Bornholm (Denmark), the Kainuu region (Finland), Åland (Finland), the Eyjafjörður region (Iceland), the Ulstein region (Norway) and Gotland (Sweden), see figure 1.1 for a reference map.

The study has the following aims:

- To identify and compare the key characteristics of *new businesses* in these areas.
- To identify and compare the key characteristics of the *entrepreneurs* starting the businesses.
- To evaluate the role of the local *socio-economic and institutional environments* and trends on entrepreneurship and business start-ups in the areas.
- To discuss the implication of the findings for the *design of local policies* for fostering business start-ups.

The main theoretical points of departure, structuring the data collection for this empirical study, are presented in

chapter 2. A brief note should be made to recall the special interest in identifying the diffusion and significance among the six areas of different types of entrepreneurs and motivational backgrounds, resulting in different types of entrepreneurship and new businesses, conceptualised as *opportunity-driven, necessity-driven* and *life-style based*.

The chapter is organised into three sections. First, the data sources and the methodology applied to data collection and empirical analysis is described. Second, the empirical findings of the study are presented. The final section of the chapter summarises the main conclusions and draws some policy implications.

## Methodology and Data

This entrepreneurship study is based on four sets of data concerning the six study areas:

1. Basic socio-economic statistics on demographic, economic, and employment structures and recent development trends.
2. Data on institutional and policy start-up support systems.
3. Statistics on registered business start-ups.
4. A questionnaire survey among entrepreneurs.

### Basic Socio-Economic Statistics

Basic socio-economic statistics have been gathered via the national statistics offices' electronic databases<sup>1</sup>. This data is, in places, complemented with public statistical information from the case study areas. This data set includes general regional data on each region's demographic, economic, employment, and labour market structures, and recent development trends at the local level. This set of data is used to describe and compare the prevailing environmental conditions and trends in the six areas, and to analyse the extent to which local indicators influence the creation of new businesses.

### Information on Institutional and Policy Support Systems

Information on institutions and policy schemes is based on the inputs from the case study areas collected locally by the research team in each area. This data set was streamlined, as far as possible, by means of a short questionnaire on the existence of institutional systems as well as policy support schemes for fostering the entrepreneurial process and promoting new venture creation. This set of data is also used in the analysis of the specific local environments dealt with herein, and to uncover the similarities and dif-

ferences of the supporting systems of the regions concerned.

### Statistics on Registered Business Start-Ups

The relevant authorities in each study area provided lists of new businesses registered during 2003 from the local records of enterprises. These original lists, the 'gross lists', contain some differences in terms of the criteria for inclusion. In Åland, for example, only firms with a taxable income or with employees are included in the list. Regarding the other five areas, the records are all-inclusive, and the gross lists include three types of firms:

- new firms;
- existing firms with changed ownership;
- new but dormant firms, i.e. those that have not yet any registered turn-over or taxable income.

Local experts assisted with 'cleaning' the gross lists to, as far as possible, obtain a net list comprising active new firms. However, it is important to remember that since the objects of the survey were *new firms*, it is to be expected that some of them may not yet have any taxable income, let alone any employees. The resulting net lists are thus to be considered as giving a more precise picture of the new business start-ups than the gross lists provided via public statistical registers. The net lists of new businesses form the statistical basis for the analysis of the number, birth rates and sectoral characteristics of new businesses in the areas, and thus they form an important data element in the analysis of the possible impact of local environment factors in respect of the phenomenon of new venture creation.

### The Questionnaire Survey among Entrepreneurs

Based on the net lists, an entrepreneur survey was carried out using a sample from each region. From each area 30 entrepreneurs were selected, except in Kainuu where only

<sup>1</sup>Eyjafjörður – Hagstofa Íslands, Ulstein – Statistisk Sentralbyrå, Bornholm – Danmark Statistik, Gotland - Statistiska Centralbyrån, Åland - Ålands statistik- och utredningsbyrå, Kainuu – Statistics Finland.



20 entrepreneurs were included, thus giving a total survey sample of 170 cases.

The entrepreneurs were interviewed via telephone during January-February 2005 by means of a structured questionnaire.<sup>2</sup> The questions concerned the following main themes:

- personal characteristics and motivations of the entrepreneurs;
- characteristics of the businesses that were started;
- use and evaluation of different environment factors (e.g. market conditions and public support schemes for business start-ups).

The sample of 170 entrepreneurs for the questionnaire survey was selected from the net list of new businesses in the six areas in the following manner. Firstly, 20 companies were randomly selected from each case study net list. Secondly, a special procedure was carried out to include entrepreneurs representing two different sectors: five ICT (Information and Communication Technology) companies and another five from a 'growth sector' specific to each region.<sup>3, 4</sup> The reason for this selection procedure was to ensure the possibility of investigating the specific processes and conditions for economic change in the areas. However, despite the common guidelines for this selection procedure it proved difficult to employ a similar procedure in the six areas in relation to identifying a 'local growth sector' and in respect of selecting five entrepreneurs from each of the two sectors in each of the six areas. For instance, the desired number of five entrepreneurs from the local growth sector was not always actually attained, and in some cases

the applied definition of the local growth sector was too broad to give meaningful input about the effects of certain specific business activities and trends in the areas. Thus, the resulting sample of 170 entrepreneurs is sectorally biased but not in a way that allows the planned sub-analysis on the ICT and specific local growth sectors.

The survey's level of representation of the total stock of new businesses, started in 2003, varies between sectors. The best-represented sector is that on Financial and business services (25% of all registered new businesses are included in the sample), reflecting the previously described procedure to include ICT firms. The Manufacturing sector is represented by 23% of all new businesses, while only 5% of new businesses are primary sector based. The remaining sectors have a representation between 10 and 20%. Thus, in all regions new businesses from a wide range of sectors and sub-branches are included in the questionnaire survey.

The number of refusals to participate and non-responses on our contact varied between the regions. Eyjafjörður and Åland had few such cases, while in Bornholm, Gotland, and Ulstein more than half of the firms that were contacted did not take part in the survey. In these cases, other firms were randomly selected from the lists of new businesses so that the final set of results contained a data set including the targeted number of new firms, i.e. a total of 170.

Overall, despite the described methodological problems and sectoral biases, the sample can be considered as being suitable to supplement the statistics on new businesses provided through public registers, as well as for providing important empirical inputs to an analysis of entrepreneurs and new businesses in the six study areas.

## Results of the Study

### The Environmental Backgrounds for Business Creation

This section provides a descriptive introductory overview to the overall environment characteristics of the six insular study areas based on a number of indicators. The presented data constitutes the first two of the four above-mentioned sets of data, and will serve as an important element in our

later investigation of the possible impact of environment factors on the number and characteristics of new businesses. Due to the analytical target of depicting the environmental background and factors for the local new businesses registered in 2003, it is a deliberate choice not to use the newest available statistical data but rather data primarily from 2003 and the years just before 2003. More

<sup>2</sup>Also in this respect, the methodology applied in Kainuu region differed from the five other areas. Due to the restricted resources and the standard interviewing procedures of the Kainuu research partner, the questionnaires were mailed while an electronic questionnaire was also made available to the entrepreneurs selected based on the given criteria.

<sup>3</sup>The selected local growth sectors were: Bornholm: creative arts and crafts industries (ceramics, glass blowers, designers); Gotland: health and body care services (massages, wellness, aquarobics); Åland: services for tourism; Kainuu: personal care services (recreation, culture activities); Ulstein: maritime businesses (sea-food production, ship building); Eyjafjörður: fish production and tourism activities.

<sup>4</sup>Again we have to stress that the procedure applied in Kainuu differed

from procedure in the other areas. In Kainuu, 59 start-up businesses were selected and grouped in the 3 categories based on the recommended criteria. On 22.2.2005, questionnaires were sent to these businesses, including envelopes with paid return postage and an indication of the website address. As on 14.3.2005 only 9 questionnaires arrived, a reminder was sent the same day by both email and mail to the same selected companies containing paper and reference to the electronic version of the questionnaire. On 23.3.2005, 20 replies were available.

in-depth and up-dated descriptions of the six areas can be found in each of the case study chapters of this report.

The overview is grouped under three headings; Geography and demography; Trends in economy and labour market; and Infrastructure, institutions and policies supporting business start-ups.

## Geography and Demography

Three of the six study areas, namely Åland, Gotland, and Bornholm, are Baltic Sea islands (or island regions). Also the three remaining areas, the Kainuu region in Eastern Finland, the Ulstein region on the West-coast of Norway, and the Eyjafjörður region in the Northern part of Iceland, have insular and peripheral characteristics, indicated by long distances and low accessibilities in relation to their national capital regions and larger urban centres (see figure 1.1 for a reference map). The limited means of transportation and the long and expensive journeys to larger cities, common for all six areas, reduce the opportunities for the local population to commute on a daily basis to diversified urban labour markets. This creates somewhat closed and insular local labour markets, thus providing the fundamental point of studying these areas in this research work.

Compared to more urbanised areas the six study areas are characterised by their low population density (see table 9.1), underlining the territorial obstacles for diversified local business structures and labour markets. Nonetheless, despite this common feature, the six areas clearly differ in size and population. Kainuu and Eyjafjörður regions are large and very sparsely populated territories, and are also characterised by the largest distance to the national capitals. Ulstein and Bornholm are the smallest and the

most densely populated areas, while Åland and Gotland define a middle group of relatively sparsely populated island territories, however with direct and rather well equipped transport links to the capital regions of Helsinki and Stockholm.

In terms of overall population trends, these areas also exhibit basic differences. Kainuu, Ulstein, and Bornholm have experienced a population decline in the period 1999–2003, with Kainuu and Bornholm also experiencing negative net migration (table 9.1). Indeed Kainuu region in particular has a serious problem in terms of population decline and out-migration. In contrast, Eyjafjörður, Åland, and to a lesser extent Gotland, have all experienced population growth, partly resulting from the in-migration of newcomers.

## Economic and Labour Market Trends

The six study regions have all been exposed by similar economic restructuring trends in the last 10–15 years. Previously the regions' economies were mainly based on primary sectors and – to a varying extent – manufacturing activities processing the local agriculture, fish, and mineral endowment. The primary and manufacturing sectors are now generally undergoing significant restructuring with many closures taking place and jobs being lost. In addition, a shift is taking place in the direction of more knowledge and capital-intensive activities, demanding labour with different skills and generally higher qualifications (see table 9.2 for statistics on the economic structures of the case study areas). As with other types of regions, these general trends within primary and manufacturing sectors cause structural labour market problems. However, the lo-

*Table 9.1 Basic statistics on the six study areas*

	Eyjafjörður	Ulstein	Bornholm	Gotland	Åland	Kainuu
Geographical surface, km <sup>2</sup>	4,300	389	589	3,140	1,527	24,452
Population 2003	21,629	22,405	43,956	57,535	26,347	86,573
Density of pop. 2003	5.0	57.6	74.6	18.3	17.3	3.5
Change in population 1999–2003 (index, 1999=100)	103.5	99.5	98.9	100.2	102.9	96.4
Total net migration 1999–2003, persons*	87	351	–283	526	652	–4185
Annual growth in total employment, percentage**	0.4	–1.9	–0.4	1.0	2.1	–0.4
Unemployment rate 2003***	3.0	5.2	10.6	3.6	2.2	18.6
Change in unemployment rate 2000–03 (index, 2000=100)	188	181	118	62	79	89

\*Figures are for accumulated net migration (persons). For Åland, Kainuu, and Eyjafjörður the period in question relates to 2000–2003.

\*\*Figures are averages of annual growth rates for years between 1997–2003. Due to differences in data availability, the actual years and the length of the measurement period differ among areas. In Åland and Gotland, the period in question is 1997–2002; in Bornholm and Eyjafjörður, the period is also five years (1998–2003); in Kainuu, however, the measurement period is one year shorter (1999–2003), and in Ulstein, two years shorter (2000–2003).

\*\*\*The figures show annual average of total registered unemployed as percentage of the labour force.

Sources: Eyjafjörður – Hagstofa Íslands (Statistics Iceland), Ulstein – Statistisk Sentralbyrå (Statistics Norway), Bornholm – Danmark Statistik (Statistics Denmark), Gotland – Statistiska Centralbyrån (Statistics Sweden), Åland – Ålands statistik- och utredningsbyrå (Statistics and Research Åland), Kainuu – Statistics Finland

*Table 9.2 Employment shares of economic sectors in 2003\* (percentage)*

	<b>Eyjafjörður</b>	<b>Ulstein</b>	<b>Bornholm</b>	<b>Gotland</b>	<b>Åland</b>	<b>Kainuu</b>	<b>Total</b>
Primary sector	7.6	10.1	6.7	7.0	5.3	8.9	7.6
Manufacturing	18.7	31.6	13.7	12.1	8.9	13.6	14.4
Construction	7.6	6.2	6.7	6.0	6.6	6.4	6.5
Trade and catering	15.5	11.2	18.0	12.2	13.3	12.4	13.7
Transport and communication	4.9	10.5	7.1	5.6	18.0	6.3	7.9
Finance, real estate and business service	8.8	7.1	6.5	7.8	8.4	9.6	8.2
Public sector and personal services**	31.7	21.9	39.9	40.1	30.6	38.7	36.4
Other services***	5.1	1.5	1.3	9.3	8.8	4.0	5.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\*NB. For Åland and Gotland the figures are for the year 2002.

\*\*Public Sector and Personal Services include: Public administration, education, health activities and services, social institutions, religious societies, recreation, sport, culture, organizations of personal interest, defence, etc.

\*\*\*Other Services include: electricity, gas and water supply, unknown (unspecified) activities. In Åland overall services are also included here, such as environmental hygiene, religious societies, etc.

Sources: Eyjafjörður – Hagstofa Íslands (Statistics Iceland), Ulstein – Statistisk Sentralbyrå (Statistics Norway), Bornholm – Danmark Statistik (Statistics Denmark), Gotland – Statistiska Centralbyrån (Statistics Sweden), Åland – Ålands statistik- och utredningsbyrå (Statistics and Research Åland), Kainuu – Statistics Finland

*Table 9.3 Growth rates in employment by economic sector\* (percentage)*

	<b>Eyjafjörður</b>	<b>Ulstein</b>	<b>Bornholm</b>	<b>Gotland</b>	<b>Åland</b>	<b>Kainuu</b>
Primary sector	0.8	-4.3	-4.1	-2.9	-5.2	-3.7
Manufacturing	-3.6	-5.1	0.6	-2.2	2.5	-2.4
Construction	5.2	-5.6	0.4	5.7	7.8	-1.0
Trade and catering	0.3	0.7	-0.2	1.4	3.3	-0.3
Transport and communication	-0.7	1.2	-2.1	1.6	0.5	-1.7
Finance, real estate and business service	2.3	0.7	0.8	5.8	5.0	2.6
Public sector and personal services**	1.8	3.1	-0.1	1.8	3.4	0.8
Other services***	2.5	-0.3	-0.9	0.0	-0.2	1.7
<b>Total</b>	<b>0.4</b>	<b>-1.9</b>	<b>-0.4</b>	<b>1.0</b>	<b>2.1</b>	<b>-0.4</b>

\* The figures are calculated averages of annual growth rates for years between 1997 and 2003. Due to differences in data availability, the actual years as well as the length of the measurement period differ among areas. In Åland and Gotland, the period used is that of 1997–2002; in Bornholm and Eyjafjörður, the period is also five years (1998–2003); in Kainuu, however, the measurement period is one year shorter (1999–2003), and in Ulstein two years shorter (2000–2003).

\*\* Public Sector and Personal Services include: Public administration, education, health activities and services, social institutions, religious societies, recreation, sport, culture, organizations of personal interest, defence, etc.

\*\*\*Other Services include: electricity, gas and water supply, unknown (unspecified) activities. In Åland overall services are also included here, such as environmental hygiene, religious societies,

Sources: Eyjafjörður – Hagstofa Íslands (Statistics Iceland), Ulstein – Statistisk Sentralbyrå (Statistics Norway), Bornholm – Danmark Statistik (Statistics Denmark), Gotland – Statistiska Centralbyrån (Statistics Sweden), Åland – Ålands statistik- och utredningsbyrå (Statistics and Research Åland), Kainuu – Statistics Finland

cal economic and unemployment effects of this are different in the six areas due to differences in the growth rates within the emerging service sectors such as financial, business and real estate services, construction, tourism and public sector activities (Table 9.3).

The economic and labour market restructuring processes seem to be especially rapid and systematic in Åland and Gotland, which show over/under-average changing rates across almost all sectors. Compared to the other areas the restructuring processes seem to have had a more positive result in these particular areas. The growth in the number of new jobs within the service sectors has more than com-

pensated for declining levels of employment in the primary and manufacturing sectors. Two sectors in particular, namely, construction and finance, and real estate and business services, are booming in Åland and Gotland. However, as indicated above, the labour needs for the growing sectors are not the same as for those in decline. This means that those losing their jobs in the declining sectors often find it difficult to find employment in the growth sectors.

This situation however, seems to be more real for Eyjafjörður, marked by slightly positive growth in total employment and a rapid increase in unemployment figures, which to a large extent can be explained by a big de-

cline in manufacturing employment and a growing population. Besides the common characteristics of fast growth in most service sectors, Eyjafjörður experiences – as the only area – employment growth within the primary sector.

In Kainuu, Ulstein, and Bornholm, growth within the service sector has not been sufficient to compensate for the rapid decline in the primary and manufacturing sectors. Especially the Ulstein region has experienced a significant drop in employment. For decades the Ulstein region has been one of Norway's centres for shipbuilding and for manufacturing of maritime related products – a sector characterised by job losses due to fierce international competition but also by huge fluctuations over the economic cycle. In the years before 2003, the local shipbuilding sector experienced an economic down turn, giving rise to a serious decline in total employment and increasing unemployment.

Focusing on the unemployment level (table 9.1), only Kainuu with 18% of the labour force unemployed and Bornholm with 11% unemployed seem to have more than marginal unemployment levels. The level of unemployment in the other areas is only 2–5%. However, it is important to remember that the figures relate to *registered* unemployment, and if those participating in labour market measures were also taken into account, unemployment levels would be higher, (see also case study chapters for a deeper discussion of the unemployment situation in each area). Despite Kainuu's problematic situation, this area has shown a significant decrease in unemployment, with the number of jobs remaining relatively static in the recent years.

In five of the six study areas, public sector activities hold the dominant position in the local economy and thus in the employment structure. In all areas except Bornholm, employment within the public sector has increased in recent years. The decline in public employment on Bornholm relates to the loss of mainly military jobs that have not been compensated by government investments in other areas of public sector, as has been the case in other study areas such as Gotland, which has seen the establishment of a university college. Additionally, Bornholm's job losses within transport and communications are related to the privatisation process of the ferry company that operates the main transport link to and from the island. A part of Bornholm's relatively poor employment position, as compared to the other areas, can therefore be explained by this development in the public sector. Furthermore, as indicated above, Bornholm has serious difficulties in fostering growth within almost all private sectors of the economy including tourism, a business field with long local traditions, and one that employs many people.

### **Infrastructure, Institutions and Policies Supporting Business Start-Ups**

In some respects, mainly due to their belonging to Nordic welfare systems, the regions have similar institutional settings and policy schemes; however, important differences

remain. A brief overview of these characteristics is outlined below.

All regions have a supply of secondary education, as well as vocational training courses 'tailored' to local business demands. Tertiary education is available in Akureyri in the Eyjafjörður region, Gotland, Åland and Bornholm. In Kainuu, higher education courses are available in different forms, including various university courses for multiple disciplines, summer university courses etc. There is no tertiary education in the Ulstein area itself, but there are University colleges in two of the neighbouring regions offering courses to Master's level. The extent of the tertiary education endowment in Eyjafjörður, Gotland, Åland, and Bornholm varies. It can be argued that Eyjafjörður has the most comprehensive offer in the shape of the University of Akureyri, followed by the more recently established Gotland University. Tertiary education in Åland and Bornholm is primarily geared to providing higher vocational degrees for the local labour market e.g. within teaching and nursing in Bornholm, and maritime navigation, and hotel management and tourism in Åland. In many cases, these educational courses are institutionally anchored in higher educational institutions outside the area and mainly have a local uptake of students, while the institutions in Eyjafjörður and Gotland form a part of these countries national higher education structures.

In all of the study areas except Kainuu and Åland, unemployed people are entitled to participate in start-up activities while receiving unemployment benefit. In Kainuu and Åland, such legislation is in the process of preparation, but has not yet been implemented.

Since Norway and Iceland are not members of the EU, EU support schemes for business start-ups are not applicable to Ulstein and Eyjafjörður. Business start-up entrepreneurs in the other four study areas are eligible for different forms of EU funding. All six study areas benefit from national financial support schemes for business start-ups and innovation projects such as grant schemes, loan and capital provision arrangements, and in all areas except Gotland and Kainuu, financial support schemes, designed and launched locally or regionally, are available. In addition to the financial start-up support available in the regions, all of the study areas provide diverse forms of regional and municipal consultancy services, which include training courses, consultancy, information supply, and other types of assistance. Besides the public support schemes for business start-ups, the areas concerned do, to a varying degree, also have access to some kind of privately organised consultancy services for instance organised by local chambers of commerce, branch organisations for tourism, agriculture, shipping or other sectors, etc.

## Characteristics of All Business Start-Ups, in 2003

As described above, data on new businesses in the six areas is provided through public statistical sources as well as through a questionnaire survey. From the public statistical data (the net lists, described above), we can get a picture of the sectors in which new businesses are created in the six areas. Table 9.4 provides a breakdown of business start-ups in 2003 and, perhaps not surprisingly, most firms were started in service sectors like trade and catering, construction, business services and other services. Among other services, firms producing personal services within the health and well-being sector are also worth noting. Examples of such services include chiropractors and beauty salons. A significant number of such firms have been started in e.g. Gotland and Kainuu. In all regions, however, new businesses are emerging in all sectors of the economy and thus, they provide an important contribution to local economic restructuring.

Table 9.5 shows the calculated birth rates, defined as new businesses per 1000 employed, in the six areas and in seven economic sectors, based on data for 2003. This figure is an indicator of the frequency of engaging in business start-ups among the labour force in the areas concerned and across the various economic sectors. The highest total birth rate is identified in Ulstein, where 26.3 new businesses per 1000 employed were created, while the lowest is in Eyjafjörður with 7.2 business start-ups per 1000 employed. Table 9.5 also shows that birth rates are highest within *Finance, real estate, and business services* in four of the regions, while in Åland the highest rate is within *Construction*, and in Kainuu within *Trade and Catering*. A remarkable finding is that more than 10% of all new businesses are started within the primary sector, generally market by dramatic decline (table 9.3).

The extreme new business 'birth rate' level in Ulstein compared to the other areas, especially within Finance, real estate and business services, could be an indication of a less

*Table 9.4 New businesses started in 2003 by economic sector (per cent)*

	Eyjafjörður	Ulstein	Bornholm	Gotland	Åland	Kainuu	Total
Primary sector	7.7	13.3	9.2	16.3	4.7	9.8	11.4
Manufacturing	15.4	8.2	8.1	11.8	8.5	3.6	8.7
Construction	16.9	8.7	13.3	10.1	17.1	2.2	10.0
Trade and catering	30.8	17.3	37.6	18.6	31.0	52.9	30.6
Transport and communication	4.6	6.1	1.7	4.2	8.5	7.1	5.3
Finance, real estate and business service	20.0	32.1	20.2	19.6	16.3	12.0	20.0
Other services *	4.6	14.3	9.8	19.3	14.0	12.4	14.0
Total	100	100	100	100	100	100	100
Number of new businesses	65	196	173	306	129	225	1,094

\*Other Services here is the summing up of Public Sector and Personal Services and Other Services given in Tables 9.2 and 9.3.

Source: Net lists of new businesses from local records of enterprises as described above.

*Table 9.5 Business start-ups per 1000 employed (full-time jobs) 2003 by economic sector*

	Eyjafjörður	Ulstein	Bornholm	Gotland	Åland	Kainuu	Total
Primary sector	7.3	34.8	12.0	28.6	8.5	8.0	15.6
Manufacturing	5.9	6.8	5.2	12.0	9.3	1.9	6.3
Construction	15.9	37.1	17.2	20.9	25.1	2.5	15.9
Trade and catering	14.2	40.7	18.2	18.8	22.6	30.9	23.2
Transport and communication	6.8	15.4	2.1	9.4	4.6	8.2	6.9
Finance, real estate and business service	16.4	120.0	27.1	31.1	18.8	9.1	25.4
Other services	0.9	16.1	2.1	4.8	3.4	2.1	3.5
Total start-up rate	7.2	26.4	8.7	12.3	9.7	7.3	10.4

\*Other Services here is the summing up of Public Sector and Personal Services and Other Services given in Tables 9.2 and 9.3.

Sources: New business statistics provided from local records of new businesses (the net lists as described above). Employment statistics are provided through: Eyjafjörður – Hagstofa Íslands (Statistics Iceland), Ulstein – Statistisk Sentralbyrå (Statistics Norway), Bornholm – Danmark Statistik (Statistics Denmark), Gotland – Statistiska Centralbyrån (Statistics Sweden), Åland – Ålands statistik- och utredningsbyrå (Statistics and Research Åland), Kainuu – Statistics Finland.

selective 'cleaning' procedure being applied to the provided list of registered new businesses (see discussion above). Another reason might be connected with the poor situation in the shipbuilding industry in 2003 when the new firms were started. According to our local research partners, many of the shipbuilding engineers were on leave<sup>5</sup> and chose to start their own business thus avoiding the stigma of being classed as 'unemployed'. Their business idea was to offer consultancy work for other firms in the region, for instance, to fish farmers. On the other hand, the large number of new businesses in Ulstein represents a variety of sectors (table 9.5) and high 'birth rates' seem to characterize most of them and not only Finance, real estate and business services.

This geographical pattern of high and low business start-up levels is confirmed if instead of start-ups per 1,000 employed one looks at start-ups per 1000 inhabitants (including children and old persons outside the labour market). Moreover, in this comparison Ulstein has by far the highest start-up rate (8.7 new businesses per 1,000 inhabitants) and scores more than twice as highly as the average of the six areas. Such calculations also confirm the ranking of the six areas with the only change being that Kainuu assumes Eyjafjörður's position as the area with the clearly lowest 'birth rate'. This indicates that Kainuu's relatively low business start-up rate is connected with its disadvantageous demographic age structure (see the case study on Kainuu chapter 6) rather than with any particular characteristics of the labour force.

Since firm birth rates can fluctuate heavily from year to year, generalisations based on data from only one year should be made with caution. However, the observed figures indicate that the frequency of firm births varies significantly across the areas dealt with here. Ulstein, and to a lesser degree Gotland also, are areas where engaging in business start-ups seems to be most frequent, Åland and Bornholm form a group with average figures, while the frequency of start-ups generally seems lower in Kainuu and Eyjafjörður.

The questionnaire survey among 170 of the entrepreneurs that started a firm in 2003 provides more in-depth information about the stock of businesses started 2003. Some of the main results from the questionnaire survey are presented in the following section.

## Characteristics of the Sample of Interviewed Businesses

### Number of Employees

It is important to remember that it is newly started businesses that are studied in this survey, and therefore the number of employees in these firms should be treated with

caution, particularly in relation to comments on the potential for job creation in these firms. In almost half of the 170 new firms, there were no employees at all at the time of the interviews. The entrepreneur was the sole trader. Nonetheless, considering their short period of operation, their job creation effects are surprisingly large. In total, 278 new jobs (in addition to those of the 170 entrepreneurs themselves) were created, giving an average number of employees of 1.6 per firm. However, the job creation effects were very different in the six areas. The Eyjafjörður firms have an average number of employees of 4.1 while in Ulstein and Gotland the number was only 0.4. Some 44% of all new jobs were created in this manner in the Eyjafjörður region. A note of caution is, however, called for. These 'new jobs' may not always be *de facto* new employment opportunities but can in some cases be the result of firm restructuring or out-sourcing activities previously carried out within other firms or public institutions. A concrete example here is found in Bornholm where privatisation resulted in 29 jobs in a new business delivering food to elderly citizens.

### Sales Markets

In all study regions, new businesses direct their sales strategies to local markets. The average local sales figures vary between 50% in Eyjafjörður and 81% in Bornholm. National markets account for 23% and international markets for only 9% of total sales in the whole sample, with considerable variations between the study areas. The new businesses in the Eyjafjörður region report the highest share of both the national and international sales markets, with 32% and 18% respectively. None of the new firms in Bornholm however sought to compete in terms of the international sales market, and this share was also very limited in Kainuu and Gotland.

Not surprisingly, the orientation towards local markets is strongest within service sectors such as *Construction, Trade and Catering*, and *Other Services*, while the strongest orientation towards international markets is observed within sectors such as *Manufacturing* and *Transport/communication*. Another noticeable finding is that new firms within the IT sector, a sub-sector of *Finance, real estate and business services*, are characterised by relatively strong orientation towards their national markets. Almost half of the new IT firms have a share of total sales of 50% or more in their national markets.

It is also worth noting that the interviewed entrepreneurs seem to identify visiting tourists as part of the local market. From the firms' point of view, this means that even if they sell their services or goods to a visiting overseas tourist, they do not consider themselves as operating in an international market. However, in terms of national trade statistics, income generated from visiting international tourists is part of the national export. Hence, it is possible that some of the firms, perhaps particularly those in Åland,

<sup>5</sup>In Norway there is a special "leave arrangement" available for employers in periods of economic slowdown to keep employees contractually related to the firm without payment.

Bornholm, and Gotland, may well be active internationally in this respect.

### Start-Up Capital and Support

The business start-up entrepreneurs that were interviewed had generated their funds for the company from a variety of sources. Table 9.6 shows the entrepreneurs' sources of capital provision. In all of the study areas surveyed, the most frequently used source is *own funds* which 75% of all entrepreneurs had used. For the majority of entrepreneurs, this was the only source of capital provision. However, an average of 30% of entrepreneurs received capital from banks (the share ranging from 48% in Bornholm to only 12% in Ulstein and Gotland). The Ulstein businesses have received a high share of national and regional grants. It is possible that this is explained by the state owned company *Innovation Norway*, which has a presence in each county. The company has the allotted task of promoting development, while such investment may compensate for the lack of venture companies in the Ulstein area. (Spilling, 2005)

Only a few firms received financial start-up support from public support programmes. In total, some 31 businesses (18%) received start-up capital from either EU, national or regional/local support schemes, however, most of these businesses were located in Kainuu, Ulstein or Gotland. Some 4% of the respondents in the regions eligible for EU funding (all regions except Ulstein and Eyjafjörður), received EU support and these firms are exclusively located in the two Finnish areas, Åland and Kainuu. Moreover, some 25% of Kainuu firms had received EU start-up capital. The provision of start-up capital from national support schemes was an option mainly taken up in Kainuu, Gotland, and Ulstein (20–25% of businesses). Finally, only 5% of respondents obtained a measure of support from regional or local programmes – an option mainly exploited in Ulstein.

Other sorts of capital sources, e.g. from an investor, a partner or family capital, were used by 11% of the interviewed entrepreneurs. The variations in this type of funding were very large between the study areas, ranging from some 26% of the interviewed firms in Kainuu to none in Gotland.

### Use of Local Business Support Functions

Business start-up entrepreneurs often need other types of support in addition to capital. Among the interviewed businesses, more than half of those in Kainuu, and 20% of the new businesses in Åland and Gotland received some sort of non-financial consultancy service support from public or non-profit organisations in starting up their firms. Very few firms in Ulstein, Bornholm, or Eyjafjörður however received such start-up support. Regarding the interviewed entrepreneurs' use of local support functions after the initial start-up phase, the picture looks almost the same in the six areas. In all six areas, there is a broad use of privately organised networking and cooperation (40–70%). In all areas, except Ulstein, about 25–40% of all businesses use local public consultancy services as well as educational institutions. In Ulstein, the percentage using such services is much lower. Firms in Kainuu, on the contrary, are generally very active in their use of, and participation in, local support functions and events.

### Personal Entrepreneur Characteristics

What are the typical characteristics of business start-up entrepreneurs in insular areas? Are there any clear differences between the six study areas in this respect? The key findings from the interview survey will be presented below highlighting their personal characteristics and motivation in starting up their own business.

#### Gender and Age

Two thirds of all entrepreneurs in the survey are men. However, the share varies considerably between the study areas. In Ulstein, almost all interviewed entrepreneurs were men, while men were in a minority in Kainuu, where 58% of the interviewed entrepreneurs were women. In Bornholm, half of the entrepreneurs in the survey were women, reflecting the fact that many new businesses here were within the creative arts and crafts industries sector. The age structure is also very diverse among the business start-up entrepreneurs in the study regions. About 40% of the entrepreneurs were between 35 and 44 years, and the age groups of 25–34 years and 45–54 years count for about 20% each. Major deviations from this overall picture are to

*Table 9.6 New ventures by area and sources for start-up capital\* (percentage)*

	Eyjafjörður	Ulstein	Bornholm	Gotland	Åland	Kainuu	Total
Own funds	73	89	67	81	65	74	75
Bank	30	12	48	12	39	42	30
EU grant program	n/a	n/a	0	0	7	25	4
National grant program	0	20	3	23	0	25	11
Regional/local grant program	7	13	7	0	3	0	5
Other financial sources	17	8	12	0	4	26	11

\*Multiple sources are possible. Thus, columns do not add up to 100%.

be found in Åland, where a large number of young entrepreneurs were discovered, almost half of them being younger than 35 years. In Ulstein and Gotland, on the other hand, the share of entrepreneurs over 55 years was comparatively large with 17% and 20% respectively.

### *Place of Birth*

Two thirds of all business start-up entrepreneurs were born in the local areas covered in this report, however, in Kainuu and Ulstein, the share of born-locals was around 80%. To what extent the entrepreneurs in this respect are representative of the population in the areas concerned is not investigated. Overall, the incomers appear to make a considerable contribution to new economic activity in all of the study areas concerned.

### *Education*

According to the survey, 90% of the interviewed entrepreneurs had a formal education of some sort, most commonly a vocational one. One third also had an academic level education. A significant deviation from this overall picture was however found in relation to Ulstein's very high share of entrepreneurs with an academic education (47%), which confirms the above mentioned possible background of many Ulstein entrepreneurs as engineers in the local ship-building industry, marked by a big downturn in 2003. Other deviations include Bornholm's extremely high share of vocationally educated entrepreneurs (90%), and Eyjafjörður's high share of entrepreneurs with only an elementary level education (23%).

### *Occupation before Business Start-Up*

The most common occupation of the entrepreneurs in the period prior to starting their firm was a full time job (54%) or a part-time job (13%). 10% were running another business. Only a few were outside the labour market; 9% in education, 5% unemployed, 4% on parental leave, and 2% at home without an income. These figures indicate that the ideal form of necessity-driven entrepreneurship, where engagement in business start-ups is the alternative to unemployment, is not a widespread phenomenon in the six study areas.

However, some differences between the study areas can be mentioned. In Ulstein, almost all entrepreneurs moved directly from a full time job to starting their own business. In Eyjafjörður, a relatively high percentage (20%) previously ran another firm, and all but one had some sorts of active labour market relation providing an income. The Gotland picture is more diverse and includes a notable number of persons just graduated (20%) as well as number of persons coming directly from unemployment (17%). Apart from the situation in Gotland, and to some extent in Kainuu also, it appears to be unusual to use the strategy to start a business to move out of unemployment. At the same time, it is worth pointing out that some of the transi-

tion paths into self-employment may, in part, be the result of people in employment attempting to avoid future unemployment.

About half of the interviewed business start-up entrepreneurs had an additional source of income besides their new company. The extent and sources of these incomes varied. In Ulstein, 37% of the entrepreneurs interviewed had started their new businesses at the same time as they were holding down a full time job.

### *Motivations*

In the questionnaire survey, the entrepreneurs were asked to evaluate the importance of 14 different motives for starting their business. The answers provide a rather complex picture of the motivational background for start-ups. In all study areas, the vast majority of the entrepreneurs mentioned multiple and often potentially contradictory motives as being of some importance. Such motives were often economically grounded, (e.g. "To create a big and growing firm"), life-style related motives (e.g. "To organise my work according to my own ideas"), and to a lesser degree, related to their private activities and preferences (e.g. "To make a living out of a hobby"). It is also worth remembering that people tend to rationalise their decisions when asked about them after the event. This is a normal and often subconscious behaviour, which means that the results need to be interpreted with caution.

The motives with the highest average score across all of the entrepreneurs were, 'to organise my work according to own ideas' and 'to get an income'.<sup>6</sup> In all areas, the most directly growth oriented motives, namely, 'to get a big profit', and 'to create a big and growing firm', had lower average scores than some of the life-style related motives such as, 'to obtain a good lifestyle', or 'to depend on my own rather than wage-labour'. Moreover, as indicated above, such economic reasons were, in almost all cases, accompanied by other life-style related motives.

Thus, the questionnaire survey does not provide much evidence for the prevalence of ideal-type opportunity-driven entrepreneurship in the study areas. Rather, the complex and multifaceted picture of motivational backgrounds could indicate that engagement in entrepreneurial activities for most entrepreneurs in the studied areas is economically as well as socially and personally motivated and might be a strategy to maintain or improve a certain way of life.

## **Impact of the Local Business Environment on New Business Creation**

We have already indicated the possible effects of the local business environments on new business creation. In this section, we will explore, in a more comprehensive manner,

<sup>6</sup>Scoring 4.1 and 4.0 on a scale of 1-5 where 5 is 'Crucially important' and 1 is "Not at all important".



the possible impact of local business environment characteristics on the creation and activities of new businesses. In this analysis we will use data from the provided statistics about all new businesses started in 2003, as well as data from the questionnaire survey. The analysis follows the same headlines as the above descriptions of the local environments. It should however be stressed that the analysis is based only on the six case studies and hence, one has to be careful with wider generalisations.

### *Impact of Geography and Demography*

There is no evidence to suggest that the frequency of new business creation is in any meaningful and systematic way influenced by the geographic and demographic indicators included in the data sets, i.e. geographical size, population size, growth and density, and net migration (see table 9.1). None of these indicators seem to be able to explain the observed differences in total business birth rates in the areas concerned. For example, Eyjafjörður has a very high population growth rate but a very low business start-up rate. In Kainuu and Eyjafjörður low population densities coincide with low business birth rates, while in Ulstein, high firm birth rates coincide with a relatively high population density. Such a general 'urbanisation trend' is however broken by Bornholm with the highest density of population and a lower than average business birth rate.

### *Impact of Economic and Labour Market Structures and Trends*

A fundamental question about the possible business environment effects on new business creation concerns the role of the economic and employment situation, i.e. whether start-ups are encouraged in localities and sectors experiencing positive economic and employment growth; or whether the phenomenon is instead encouraged by economic decline and increasing unemployment through various necessity-driven mechanisms. Another question concerns the role of specific local sectoral strengths and weaknesses for business start-up levels.

Neither the provided public statistics nor the questionnaire survey of a sample of the entrepreneurs provides empirical evidence for the existence of general 'unemployment push effects' where unemployment stimulates necessity-driven business start-ups and results in higher business birth rates. The data from the questionnaire survey clearly shows that only very few entrepreneurs start their business while being unemployed. Moreover, the only areas with severe unemployment levels, Kainuu and Bornholm, both have lower than average birth rates, as has Eyjafjörður, which is also experiencing increasing unemployment (table 9.1). However, at least part of the high birth rate in Ulstein might very well be connected with the more disadvantageous environment factor of a downswing in the local shipbuilding industry, which perhaps encouraged those confronted with the possibility of unemploy-

ment, but with retained marketable skills, to start their own businesses.

Besides this example from Ulstein, there are a few other indications of possible necessity-driven entrepreneurship that might be the effect of specific local business environment conditions. According to the questionnaire survey, Gotland had a noticeable share of entrepreneurs moving into self-employment from unemployment as well as having many start-ups set up by persons over 55 years of age. These observations might be an indication of the recent fast pace of economic restructuring in Gotland, complicating labour market entry for certain labour force segments like the semi-skilled or those over the age of 55. For those among these labour force segments that wish to stay on the island, becoming self-employed may thus be the only option.

Another example of use in highlighting this point is the significant level of importance attached to the business start-up motive, 'to remain living in the local area' in Kainuu and Eyjafjörður.<sup>7</sup> Among the six study areas, which all have the insularity factor in common, with Kainuu and Eyjafjörður being the two most extreme cases, most sparsely populated and geographically peripheral. In such areas, where day-commuting to a neighbouring labour market is not possible or at least highly undesirable, engaging in start-up activities can be the only strategy to avoid out-migration and, in this respect, the start-ups driven by such motivation can be seen as being necessity-driven.

On the other hand, the relationship between birth rates and local economic trends rather seems to indicate – though not fully systematically – that positive economic climate with growing employment and decreasing unemployment encourage business start-ups. Åland and Gotland with comparatively low unemployment and growing employment both have relatively high average birth rates, while both Bornholm and Kainuu, marked by economic restructuring problems and decreasing employment, score relatively low in terms of business start-ups. The areas with the two extreme birth rate figures, Ulstein and Eyjafjörður, however, do not fit into this picture.

Looking for indications of opportunity-driven and more profit and growth oriented kinds of entrepreneurship; the high job creation effects of the new businesses interviewed in Eyjafjörður are striking. Admittedly, due to the short time of operation for the businesses that were interviewed in the questionnaire survey, the basis for generalisation and strong conclusions concerning the employment effects is limited. But our observations clearly suggest that Eyjafjörður is characterised by few business start-ups but also that the ones that are realised, on average grow fast and have much higher job creation effects than the new businesses in the other areas.

<sup>7</sup>Scoring 3.8 and 3.6 on a scale of 1-5 where 5 is 'Crucially important' and 1 is "Not at all important".

Explanations for these job effects cannot be found in more economic and profit oriented motivations for engaging in start-ups. As described above, the motivational backgrounds of the Eyjafjörður entrepreneurs for engaging in start-ups only differ slightly from those of the entrepreneurs in the other areas, and as in the other areas, economic motivations are often combined with more social and personal motivations about independence and self-employment.

More plausible explanations suggested by empirical findings from the questionnaire survey seem to be related to a number of other personal characteristics of the Eyjafjörður entrepreneurs, as well as to a number of distinct characteristics of their businesses. For example, many of the interviewed Eyjafjörður entrepreneurs already had practical experience of starting a business from previous start-up processes. This personal characteristic of entrepreneurs is indicated as being highly significant for the job creation effects of their businesses when tested for statistically in the sample of all 170 interviewed entrepreneurs.<sup>8</sup> More surprisingly, the questionnaire survey also indicates that the significant job effects of the Eyjafjörður new businesses to some extent stem from entrepreneurs with only an elementary school education. In the sample of all 170 entrepreneurs, a reverse relationship actually seems to exist between the level of education of the entrepreneur and the average job creation effects of their businesses. Entrepreneurs with only elementary education in average have the highest employment effects. This finding in particular should however be interpreted with care, as the job effects of businesses managed by persons with a higher education may well might turn out to be better in the longer run. Another explanation here may be that those businesses started by entrepreneurs with a higher education are examples of 'sole trader' consultants working in other economic sectors than the entrepreneurs with only an elementary level of schooling.

The high job creation effects in Eyjafjörður could also be connected with certain characteristics of the new businesses there, for instance, their high average export rates in comparison with businesses in the other areas, as well as the relatively large group of businesses in Eyjafjörður that – besides maybe their own funds – provided some kind of private start-up or investor capital. Both of these factors are indicated as significantly contributing to job creation<sup>9</sup> when tested for statistically in the sample of all interviewed entrepreneurs.

Another observation to emphasis in search of opportunity-driven entrepreneurship is the high share of entrepre-

neurs in Gotland who, according to the questionnaire survey, started business after graduation. Although we do not know from which educational institution this group of Gotland entrepreneurs came, some of them could have started their business as spin-offs from Gotland University, based on a certain business idea and plan. As discussed in chapter 5 above, Gotland University is a partner in an incubator and support scheme for students, staff, and other potential entrepreneurs on the island. However, compared to the Eyjafjörður entrepreneurs, this group of possible opportunity-driven entrepreneurs in Gotland seems to create very few jobs – or maybe rather, the growth potentials and job effects of these sorts of spin-off businesses are not observable in so short a time after their actual commencement.

If we further elaborate on the question of the importance of economic trends for business birth rates by relating sectoral birth rates (table 9.4) to sectoral changes in employment (table 9.3), an ambiguous picture can be observed. In some instances, high sectoral birth rates occur in sectors that in recent years have experienced increasing employment. An example of this is observable in several regions within the growing *Finance, real estate, and business service sectors*, and in the growing *Construction sectors* in Gotland, Åland and to a lesser degree Bornholm.

However, there are also several examples of high birth rates within declining sectors as in Kainuu's *Trade and catering sector*, and within Ulstein's, Gotland's, and to some extent also Bornholm's *Primary sectors*, all of which are experiencing considerable decline in employment numbers. The latter examples could be indicators of the important role of entrepreneurship in local economic restructuring processes through which the new products and technologies of new firms replace mature and out-dated products and technologies in old enterprises.

Another question about the impact of existing economic structures on new business creation concerns the effects of local economic cluster and path dependency mechanisms through which new businesses are established within fields of activities with strong local traditions and significant economic weight. According to the obtained statistical data, the results do not confirm any general effect of such mechanisms. On the contrary, many of the sectors with above-average employment weight in the local economies (table 9.2), such as *Transport and Communications* in Åland, and *Trade and Catering* in Bornholm, have below-average birth rates. This could be due to the existence of tough local competition and, in the case of transport and communication, to the high entry costs that prevent new firms from entering the market.

On the other hand, examples also exist of considerable new firm creation within business fields with special local traditions. For instance, Bornholm has a long industrial tradition within ceramics and glass production, and the many recent start-ups of arts and crafts workshops within

<sup>8</sup>More precisely, standard multiple regression analysis has been made to explain the number of employees in the 170 new businesses – with the abovementioned result concerning explaining factors. The resulting statistical model is only able to explain about one third of the new jobs created, however, a number of variables, most of which are mentioned in the text, were indicated as significantly contributing factors.

ceramics, glass, garments, clothes, design etc., are in line with these traditions. Another example here is the many start-ups in the Ulstein area related to the local ship building industrial cluster, but as described above, the background to this reflects a rather negative economic conjuncture than that in the Bornholm example, where positive growth and development within a certain business field was the driving force.

### *Impact of Institutions and Policies Supporting Business Start-Ups*

We have already mentioned the possible impact of Gotland University on the creation of a number of small local spin-offs. The example from Bornholm of many new firms within the arts and crafts field is another illustration of the possible effects of strong local institutional conditions. During the last decade or so, an educational institution for glass and ceramics and another for textile and fashion design have been established on Bornholm, as well as an arts and crafts trade organisation, all of which have contributed to building up and institutionalising local networking among the firms. This has undoubtedly played a role for the many new firms based on such products and competences.

The varied use of public financial start-up support schemes between the six study areas (see table 9.6) is noteworthy. The study does not shed any light on to what extent these differences are due to differences at the supply side of policy implementation (for instance the administration of the programmes) or at the demand side (characteristics of applicants). Nonetheless, what is particularly interesting regarding the use of public financial start-up support is that the provision of such support is generally not connected with significantly higher job creation

effects, at least in the short term. On the contrary, statistical tests of the questionnaire data of 170 entrepreneurs<sup>9</sup> indicate, that the provision of public start-up capital, particularly through nationally launched support schemes, has a slightly (but significant) negative effect on the number of new jobs available. As such then, for many of the interviewed entrepreneurs the provision of public financial start-up capital seems to have encouraged self-employment rather than economic and employment growth. Since job creation is an overall objective of most public business support schemes, this finding calls for closer analysis in order to discern the long-term job creation effects it promotes. As indicated above, caution is needed when evaluating the job creation capacity of these firms due to the short time of operation of the interviewed new businesses. Besides, to conclude on the relevance and effects of public support schemes on business start-ups, more in depth investigation about the quality, accessibility, and administration of such policy measures is also needed.

In the questionnaire, the entrepreneurs were asked to evaluate different aspects of the prevailing local conditions regarding their quality for start-ups and business development as well as their relevance and importance as possible fields of policy intervention for local authorities and institutions. The results from this part of the survey, it is worth noting, concluded that the existing opportunities for networking, cooperation and the exchange of experiences between local businesses – which, as mentioned above, are widely exploited among the entrepreneurs in all six areas – are rather positively evaluated in all six areas. Moreover, in all areas except Eyjafjörður, promotion of this local environmental condition is evaluated as an important field of local policy intervention.

## Conclusions and Policy Perspectives

This concluding section sums up the main findings of the analysis undertaken here, which was based on data recovered on the business environment indicators, the net list of all new businesses and the entrepreneur questionnaire survey. The policy impacts and perspectives are also discussed. Two conclusions are highlighted:

1. The local embeddedness of entrepreneurship.
2. The typical features of entrepreneurship in insular areas.

### **The Local Embeddedness of Entrepreneurship**

The six studied areas are all insular Nordic locations with some shared, but far from identical characteristics in terms of geography, demography, economic and labour market structures, infrastructures, institutions, governance set-

tings, etc. The provided data sets have given many indications of differences between the areas in respect of the phenomenon of entrepreneurship, not least in terms of the two indicators that from a local development point of view are perhaps the most central: business birth rates and the job creation effects of new businesses.

Although the data analysis has not provided any *comprehensive* explanation of the rich and multifaceted pictures of entrepreneurs and new business creation in the six study areas for instance in the form of any systematic effects of overall economic, employment and demographic trends, it has thrown up many examples of how distinct local environment characteristics influence new business

<sup>9</sup>See footnote 7.

creation. Such examples include, for instance, the identification of certain local business fields in which many new firms are created. One sector in each of the case study areas was targeted in the interview survey to receive input on such start-ups as described in the methodological section of this chapter. This often occurs within locally “new” sectors (like the many new firms within health and body care services in Gotland), but is generally based on emerging local demand and markets. On other occasions, it is found within “old” sectors with strong local traditions and institutionalised support functions, as well as growing markets (as with the arts and crafts sector on Bornholm). Additionally, many new businesses are created within business and competence fields related to “old” but declining economic sectors (as with the many business consultancy service firms in Ulstein related to ship building and other maritime activities).

The considerable variation of the phenomenon of entrepreneurship in terms of firm birth rates, sector affiliation and the employment effects of start-ups, indicates that entrepreneurship plays different roles and thus is fundamentally embedded in very different local systems of economic, social and cultural business traditions based on varying views, thresholds, motives and assessments concerning the issues of entrepreneurship. In some areas, as in Eyjafjörður, a profit and growth oriented ‘practical man’ type of entrepreneurship (as well as practical experiences of starting and developing a firm) seems to be more common, while in other areas, like Ulstein and Gotland, the perspective of becoming self-employed to a much larger degree seems to prevail, thus motivating engagement in entrepreneurship. To explain these very fundamental differences in the phenomenon of new business creation, other local business environment features than the ones focused on in this analysis should be included, such as for example, business legislation, tax-systems and other kinds of institutional conditions as well as social and cultural factors.

In policy-making terms, the main impact of this finding is the hardly surprising conclusion that there is no such thing as a ‘one-size-fits-all’ policy. Policies to encourage entrepreneurship and new business creation should be based on local knowledge of the specific locality concerned. One might say that this conclusion is already being followed and implemented since, for instance, local or regional authorities in the areas in fact manage start-up support schemes (launched at the local, regional, national or EU level) and direct money to applicant local start-up entrepreneurs. However, although the questionnaire data does not allow for strong conclusions on the employment effects of the new businesses, or on the role and effects of public capital support schemes, our data does indicate that receiving such capital support in itself is not a factor that leads to higher job creation effects. On the contrary, it can actually affect job creation negatively, at least in the short

run. We have only a weak empirical basis for this observation, but it does flag up a potential concern that calls for further investigation into business support for start ups and more long term job creation. Is there a need for reconsidering policy programmes, and in particular, their overall strategies and goals, as well as the administrative procedures for selecting businesses for support? The reason behind the positive employment effects of start-up capital obtained from other sources such as private investor or corporate capital might very well be that the investor’s demands for well-elaborated and trustworthy business plans and strategies, and knowledge of important markets, technologies and local development potentials, are more significant in such cases than in connection with public financial support. Thus, if the goal of start-up promotion policies is the encouragement of economic growth and job creation, public authorities delivering grants should perhaps review their selection procedures and their capacity to identify the ‘right’ entrepreneurs motivated for growth and with potentials and capacities to realise this goal. The need to stimulate growth in micro businesses is, at least in some of the case study areas, acknowledged as a field desperately in need of policy attention.

One element in such possible adjustments of selection procedures could be to find a better way of acknowledging the growth potentials of less well educated entrepreneurs with limited competences and help them to gain access to public funding to enable them to better elaborate their business strategies and plans. Another suggestion here in relation to the adjustment of local job creation policies, which is particularly relevant in regions where start-up activities are conducted in the main as a part of ongoing self-employment strategies for highly educated entrepreneurs, is to target policy intervention on the expansion, innovation and development of already operating small businesses rather than on the encouragement of new start-ups.

A final element to emphasise in such considerations of improving local policies for the promotion of business start-ups and growth is the possibility of targeting at least some of the measures towards development and innovation in specific local growth sectors or product fields. An example of this sort of sector target in local business policies, are the recent efforts on Bornholm to build up institutional conditions around arts and crafts, and quality food and drinks products – efforts that go hand in hand with strategies for the local tourism industry. This study has not however provided indications that this policy option in any general, systematic way is exploited among the areas.

### **Typical Features of Entrepreneurship in Insular Areas**

After the above argument about the distinctive local character of entrepreneurship, this headline for a conclusion might sound rather contradictory. However, besides the

many differences between entrepreneurs and new businesses in the six areas studied, they also share many common characteristics. For instance, with minor local deviations a typical entrepreneur in the areas seems to be a man between 35–55 years with a formal educational qualification, part of a household, moving into a business start-up from a full time job motivated by a wish to combine an income with a professionally and personally challenging job, he uses his own savings as the main start-up capital and perhaps supplements this with a bank loan. The typical new business seems to be a service sector firm based on local markets, giving income to only the start-up entrepreneur or only very few persons, and taking part in some sort of local networking, cooperation and experience exchange.

This depiction obviously neglects the many variations at the local, sectoral, and personal levels, while it is unlikely that any single entrepreneur in the data set fulfils all the listed features. The point here, however, is to underline that entrepreneurship in all the studied areas seems to carry many common features and that these 'typical' features actually describe a considerable part of the phenomenon as a whole. Not many of the entrepreneurs interviewed in this study match the ideal type of 'opportunity-driven' entrepreneurship, motivated by the desire to gain significant economic profits or realise ambitious business plans or projects. Furthermore, only few business entrepreneurs are necessity-driven and with no other options for earning a living. Rather, at least in the insular labour markets of this study, marked by high standards of living and Nordic social security systems, but also limited opportunities for finding attractive and challenging jobs particularly for well-educated persons, entrepreneurship typically seems to be a choice made to satisfy not only economic goals but also broader and wide-ranging meanings of a 'good life', a 'good job', and a 'good place to live'. In this sense, the concept of 'life-style entrepreneurship' seems more closely to describe the typical entrepreneur of this study.

To synthesise, despite local economic and cultural differences, entrepreneurship is a *social* phenomenon as much as it is an economic one, and it plays important social roles in the life of individuals and families everywhere.

The policy implications of this conclusion are then not so much connected with new business promoting policies as such. Since the typical peripheral entrepreneurs, according to the findings in this study, are not only economic agents but also individuals with broader social and cultural contacts to the places in which they live, the implication is rather that policies for the promotion of start-ups and the development of businesses should be deliberately combined with labour market policies as well as with policies targeting the broader aspects of social and cultural living conditions, such as schools and social institutions, libraries, cultural events, recreation and nature protection etc.

As indicated above, business start-up support schemes might in some instances need a clearer focus on the growth potentials of applicant entrepreneurs and their business ideas. Having said this, it should be stressed that support to individuals' for the realisation of their own self-employment strategies certainly is a relevant policy goal in insular economies like the ones studied here – from an economic, labour market, and a social point of view. In such areas, sole traders working in their own companies can be important parts of the labour market, preventing people from becoming unemployed. One way of supporting the start-up and operational phases of businesses with a merely self-employment perspective, that is still kept within the field of economic business policy could be to facilitate networking, cooperation and experience exchange among them. Many aspects in the entrepreneurial process of starting a business and of developing it into a more consolidated phase of operation are common, regardless of products, technologies, and markets. Furthermore, facilitating local networking, cooperation and experience exchange was evaluated as one of the most important policy fields by the entrepreneurs in the questionnaire survey.

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#### Internet Data Sources

- Danmarks Statistik (Statistics Denmark), [www.statbank.dk](http://www.statbank.dk)
- Directorate of Labour, Iceland, [www.vinnumalastofnun.is](http://www.vinnumalastofnun.is)
- Hagstofa Íslands (Statistics Iceland), [www.hagstofa.is](http://www.hagstofa.is)
- Statistics Finland, [www.stat.fi](http://www.stat.fi)
- Statistisk Sentralbyrå (Statistics Norway), [www.ssb.no](http://www.ssb.no)
- Statistiska Centralbyrån (Statistics Sweden), [www.scb.se](http://www.scb.se)
- ÅSUB Arbetsmarknad, Ålands statistik- och utredningsbyrå (Statistics and Research Åland), [www.asub.aland.fi](http://www.asub.aland.fi)

# 10. How to Make a Living in Insular Areas – Cross-Cutting Issues from Six Nordic Cases

How do people generate their income in insular areas, where a daily commute to a neighbouring labour market is unrealistic? With this question in mind, six insular areas across the Nordic countries were studied in order to discover how people were able to make a living in such places. These areas were Bornholm, the Eyjafjörður region in Iceland, Gotland, Kainuu region in Finland, the Ulstein region in Norway and Åland (see figure 1.1 a reference map in chapter 1). The researchers in these areas have made use of reports, statistics, interviews with key personnel, and a number of biographical interviews with different individuals, all of which was designed to shed light on this matter. In this chapter, we attempt to tease out some of the cross-cutting issues from the case studies against the backdrop of the more theoretical discussion of matters relating to the labour market and regional development, presented in chapter 2.

We will begin with a short section highlighting the interlocking policies in respect of the labour market and regional development. This is followed by an attempt to re-connect with the two models introduced in chapter 2; the *transitional income system model* and the *DORA (Dynamics of Rural Areas) model*. These models will be used in an analysis of the case study areas seen as a whole. Firstly, using the material from the case studies it is possible to identify three types of transitional loops in the income system. These will be discussed and then exemplified by stories from the biographical interviews. Secondly, the analysis will move on to take a closer look at five themes generated from the models. The case studies reveal some interesting issues regarding the success or otherwise of their income systems and these themes. Finally, some of the ‘soft’ policy recommendations generated in the context of the case studies will be presented in a concluding discussion.

## The Interlocking Nature of Labour Market and Regional Development Policies

Employment and self-employment are central to making a living and therefore the labour market forms the centre of this study. The labour market is however part of a wider income system that also contains for example education and training, sick leave and unemployment where, in most cases, there are welfare state arrangements that facilitate an income when individuals are not working. The main reason for the existence of these arrangements is to help individuals regain their incomes on the labour market, perhaps after a spell of retraining. These arrangements are also beneficial to employers, both private and public. The publicly supported income system that contributes to the processes of the up-skilling and re-skilling of the work force, and to the rehabilitation of people on sick leave, contributes to improving the supply of labour available on the labour market.

Transitions to and from the labour market are crucial in understanding how people earn a living. The basic questions driving the study therefore include:

- What are the facilitators of, and the barriers to, these transitions?
- What is the scope for policy initiatives to further facilitate employment and self employment?

Policies relating to the labour market and regional development are two important interrelated fields impacting on the ability of people to make a living. Labour market policies deal with matters such as initiatives to get people back into the job-market after a period of unemployment, and/or to receive work experience through subsidised work placements. This is usually done with the context of re-training or re-skilling. This study focuses on how to facilitate transitions within the income system particularly in relation to the labour market.

Regional development policies, on the other hand, aim at promoting, developing, and bettering the living and working conditions of a given region. In the Nordic countries, the focus is on growth policies but within the broader

framework of promoting a sustainable regional development that includes good quality of life factors, equal opportunities and so forth. Important elements of regional development policies of particular relevance to this study include investments in hard and soft infrastructure, such as transport and communication networks and education and training. Furthermore, economic and organisational

structures are also of great importance, e.g. in relation to the broad level of collaboration between different actors and agencies within the regional development field and access to capital and knowledge for business start-ups, in addition also to 'softer' factors such as the general 'entrepreneurial climate'.

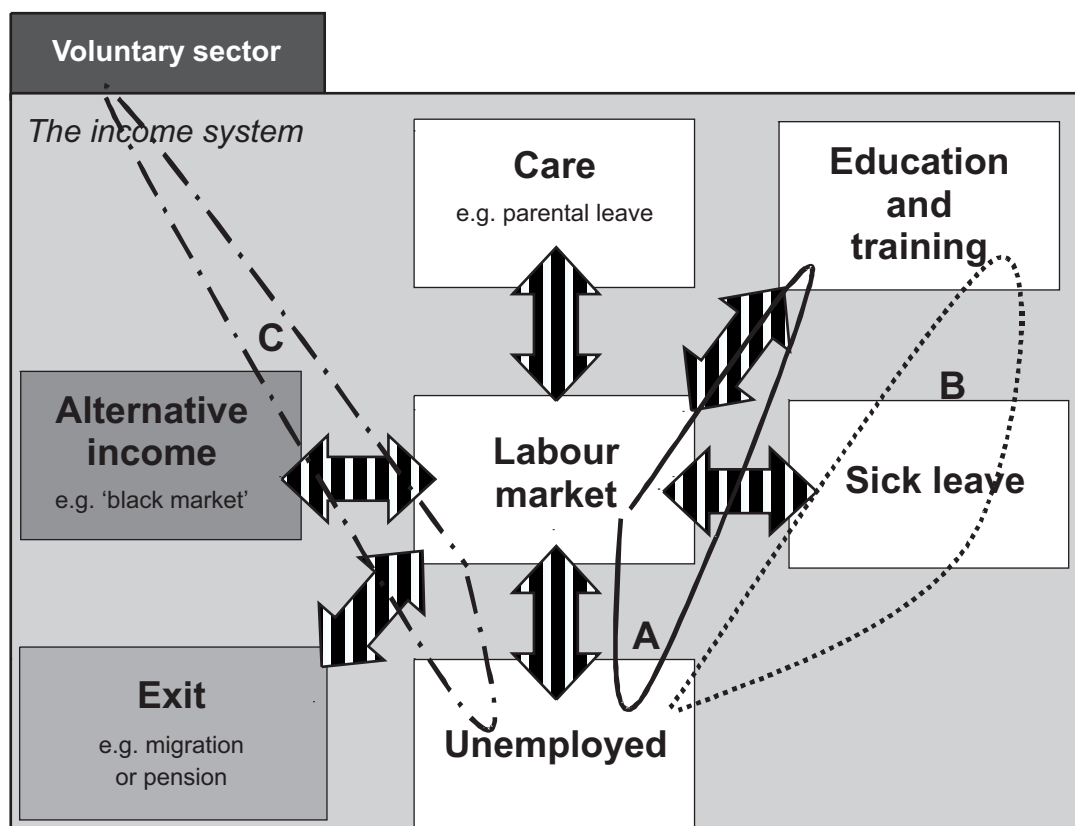
## Making Use of Models in the Analysis

### The Transitional Labour Market and Income Systems

The transitional income system model described in chapter 2 has the labour market at its centre (see figure 10.1). It is based on the fundamental idea that the modern labour market is characterised by individuals who, over a lifetime, go through several transitions both within the labour market and between the labour market and other parts of the wider income system. The double arrows in the figure are examples of transitions between the labour

market and other parts of the income system, e.g. the traditional one from education in the top right hand corner to the labour market in the centre. The concept of 'life-long learning' is important in modern labour market research and the double arrow indicates that, in line with this, transitions increasingly go the other way too: from the labour market to education and training. It can be argued that the traditional path from education to the labour market until exit in the shape of a pension has been replaced by employment, or self-employment, as a tempo-

Figure 10.1 Examples of loops in the transitional income system. Source: Based on Figure 2.1 in chapter 2. (Dahlström & Persson, 2005, adapted after Schmid, 1998)



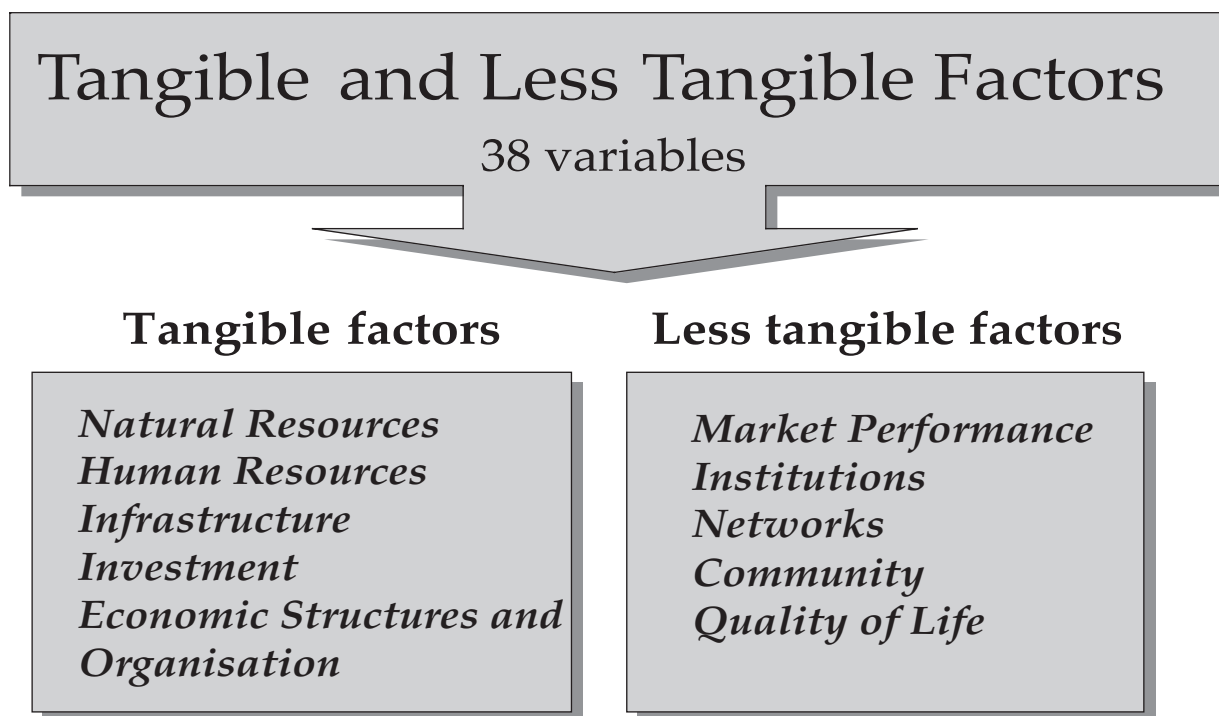
Loop A = The classical loop

Loop B = The marginalisation loop

Loop C = The social network loop



Figure 10.2 The DORA (Dynamics of Rural Areas) model. Source: Persson (2004) after Bryden & Hart (2004).



rary state, or the current manifestation of long-term *employability*.

The case of life long learning can be illustrated as a loop in the income system; from the labour market to education or training to gain new competence and skills and back into the labour market again in a new, or indeed the same, job. This loop may also include a spell in the unemployment box, so that the loop goes ‘labour market’, ‘unemployment’, ‘education and training’, and back into the ‘labour market’, as in loop A in figure 10.1. We can call this the *classical loop* since it describes a common pattern that is often the focus of labour market policies and initiatives. We have plenty of examples of this type of transitions in the six case study areas. The number of loops and routes within the income system are many, and not all of them end up in the labour market box. We have also come across another loop where people tend to move between the three boxes of ‘unemployed’, ‘education and training’ and ‘sick leave’, loop B in figure 10.1. Here we tend to find vulnerable individuals that are on the verge of becoming marginalised and perhaps will fail to either get into the labour market box at all or get back to the labour market perhaps after many years of unemployment. We can label this the *marginalisation loop*. As indicated in chapter 2, factors exist beyond the income system that potentially facilitate transitions back into the labour market. Loop C in figure 10.1 illustrates how it could be possible to gain access to the labour market via the social networks of ones engagement in the voluntary sector. This path into the labour market can be called the *social network loop*. There were several

examples of this loop being utilised among our biography interviewees in the case studies.

### The DORA Model and How It Connects with Transitional Income Systems

The DORA model described in a simplistic manner in figure 10.2 and in more detail in chapter 2 can be used as a tool in the analyses of insular income systems. The model provides a comprehensive picture of the various institutions important to an understanding of local development in insular areas. It highlights the fact that both tangible and intangible factors are important in understanding the success or failure of insular areas in terms of their development and thus their ability to create opportunities for their inhabitants to make their living. The strength of the model is that it highlights the less tangible factors, something that is less common in traditional theories of economic performance.

The connection between the transitional income system model and the DORA model in this study can be seen in at least two ways:

1. Each of the five pale boxes in the transitional income system model (figure 10.2), i.e. those that make up the formal income system in a territory, are the responsibility of one or more formal institutions and policy areas in society. These include e.g. the employment office, the social insurance agency, educational institutions, and the administration responsible for development strategies and those in charge of labour market initiatives. Many of these institutions and policy areas ap-

pear in the DORA model e.g. under the headings of infrastructure, investment and institutions.

2. The ten factors of the DORA model include a very wide spectrum of assets and resources in a region. The salience of these factors does however change over time,

thus contributing to the physical, institutional and social make up of each region. The income system is overlaid on this physical bedrock and the individuals in the system move within the income system making use of these assets and resources.

## Stories about Making a Living in Insular Areas

In this section, we will focus on some of the stories we uncovered about how people make a living in the case study areas. These stories provide illustrations of transitions of the three types described above. It is striking however that many of the interviewees have had numerous different transitions in the income system and therefore the loops, which generally only include a few boxes, are really rather oversimplified. One example of such a transition in the income system from one of the case study areas is given in figure 10.3. Anne<sup>1</sup>, the woman with this income biography, left secondary school prematurely because she was offered a job in a shop. After a few years in the shop, she got a better job in the postal service, i.e. a transition within the labour market itself. After a while, she was tempted to exit employment by a course of vocational training, so Anne went back to college and made the transition from the labour market box back to the education and training one. Having finished college, she then got a job in the food industry, but nurtured a dream to go back to college again. Anne left the job and as an adult student in higher education received a nursing degree. After graduation, she worked as a nurse, while also taking further full time training for a specialist nursing qualification. She then undertook a period of parental leave, but also worked when the children were young. After several years work in the health sector, Anne began to suffer from poor health and found herself on sick leave. Due to her health problems, she needed to find a new way of making a living and took a business start-up course. Following this, Anne started the company where she currently makes her living as a self-employed entrepreneur.

This story exemplifies a number of different transitions in the income system and within the labour market itself. It shows that many individuals are quite brave and resourceful in changing careers and in finding new ways of making a living. Each of the transitions comes about as a result of a combination of individual and structural resources and it is important to remember that in many cases the decisions are made within the framework of a household. The examples taken from the three 'loops' below help to highlight these individual and structural or

institutional factors. After so doing, we focus on some of the key factors of importance for transitions in the income system in insular areas. The following sections outline and illustrate in turn the classical loop, the marginalisation loop, and finally the social network loop.

### Over 40 Years in the Same Company before Unemployment and Business Start-Up

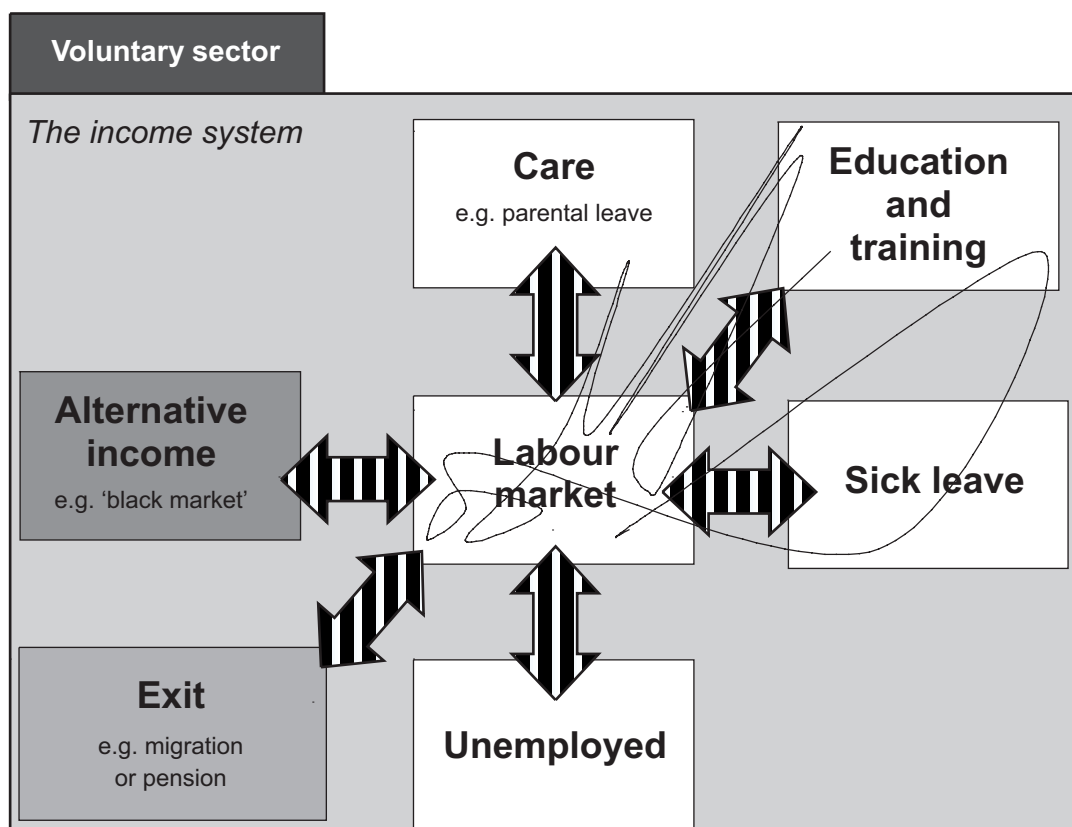
John is still working in his self-employed trade even now that he has reached pension age. He began working in a manufacturing firm at a young age as was common in this generation. There was much stability and continuity in his working life for more than four decades. During this time, his employer twice sent him overseas for further training in his trade. The company however closed down in the early 1990s and this brought about a significant change in John's life. Subsequently, John underwent a period of temporary work interspersed with periods of unemployment until he started his own private business. During John's working life, special training, 'know-how', and personal networks have been of great importance; firstly in keeping his previous job for so long and secondly in establishing his current business and in making it successful. In general, the transition periods went more smoothly than John anticipated after over 40 years in the same field.

### Lack of qualification Brings a Mix of Temporary Jobs, Training and Unemployment

Alison is a twenty-eight year old woman who was born and bred in her case study area. She has no formal education beyond compulsory schooling and has never had a permanent job. When she graduated from primary school, she started secondary school but dropped out after one year. She moved out of the region to another part of the country for a different type of secondary education course and then started a course of professional training within the food processing industry. This training included an apprenticeship in a company, but Alison found that the working conditions there were poor and she felt that company attitudes towards women left a lot to be desired, so she dropped out of this training course. After some problems in her personal life, she decided to return to her home region where she found work in the care sector. There was no full time permanent position available, but as an un-

<sup>1</sup>In all these stories, we will use English language names to tell the stories while keeping the informants, and the regions they live in, anonymous.

Figure 10.3 Anne's income history: many transitions in the income system. Source: Based on Figure 2.1 in chapter 2.



skilled worker, she managed to find a number of different part time temporary jobs, interspersed with periods of unemployment. She managed to get these jobs partly due to experience of care work in her own family and due to her engagement in a related voluntary organisation. Alison got the jobs through personal and work related contacts. Alison then got married and had a baby. Her husband Tom has undertaken spells of work overseas, and her new family situation made it difficult to take up the available temporary jobs in the care sector because they often involved night time and weekend work when there was no one available to look after the baby. Alison did not really want to have a permanent career in the care sector but dreamt of undergoing a period of vocational training in the building trade. Through persistent efforts approaching companies in the trade, she managed to get an apprenticeship in a company and is currently engaged in a training scheme for her new trade. Alison enjoys her training and hopes to be able to make a living in this trade, perhaps by starting a company together with her husband in the future.

### Engagement in a Sports Association Creates a New Social Network – and Brings with It the Possibility of Finding a Job

In his mid 50s, Steve had worked for twelve years as an administrator in the private sector. He was then made redundant due to a restructuring of the firm. He found him-

self unemployed for the first time in his life. Steve was unemployed for four months and found it difficult to find a job. He felt that his age was a clear disadvantage. Steve was very skilled and had relevant and valid experience, but was more expensive to employ than a young person. However, Pete, a friend in Steve's local sports association knew of an opening in the company where Pete worked. Through this contact, Steve was offered a temporary full time job at the firm that needed the particular expertise he had. Because he was unemployed, the job was classified as a labour market measure, which meant that the company received compensation for a portion of the salary costs, an important factor in hiring a more experienced and expensive person. After the period of employment support was over, Steve was offered another temporary post at the same company – this time on a regular contract. This story exemplifies the combination of individual and institutional factors that facilitated his transition back to the labour market from unemployment. Social networks are thus particularly important both to individuals in respect of receiving information about job openings and for employers, who are better able to find new employees via a process of informal recommendation. The institutional factor of labour market measures subsidising the salary may however have been the deciding factor in hiring Steve.

# Facilitating or Hindering Transitions in Insular Income Systems

Generated from the two models and the empirical findings from the case studies, five themes will be discussed here in more detail. These include some of the factors that form the DORA model and that appear in different ways in all six of the case study areas.

## Human Capital

Human capital is one of the tangible factors, which the DORA-model stipulates as being important for development. In the income system model, human capital is generally located in the education and training box, although it is also found in the labour market itself. Skills developed and the other experiences gained while in employment form an important part of human capital development.

As discussed in chapter 2, the term human capital is synonymous with the qualities of the workforce, a factor that is increasingly stressed in theories of regional economic development. The tendency for highly qualified people to concentrate in geographical areas is a disadvantage for rural and peripheral areas. Young people in such areas have always had to move to be able to study, something that is positive as long as some of these migrants return to their home localities with new skills, qualifications and other types of knowledge and experiences.

The six case study areas share a typical pattern with regard to human capital; namely, they contain populations with comparatively low educational attainment levels. At the same time, intra regional differences are large, and the urban centres of the regions tend to have a population with a considerably higher educational profile, e.g. the Ulstein municipality and Visby in Gotland. In this study, we have come across numerous initiatives addressing the human capital factor. In Gotland, for example, there is a project focussing on young people, which is designed to increase the number of local students who choose to go on to higher education either locally or in universities elsewhere in Sweden or abroad. However, it is often among the older segments of the population that people with only a basic level of education are found. In this light, training initiatives among the adult population – focussing in particular upon older segments of the population – are now becoming increasingly important. This is for example the most important type of human capital initiative in Åland.

The location of a higher educational unit in an 'insular' area is also part of a broader regional development policy where the presence of a college has the potential to affect in the long run both the local human capital produced and to interact with other parts of the economy to contribute to favourable conditions in the area. In one form or another, the policy of establishing higher education units in such

areas has been important in all case study areas apart from Bornholm and Ulstein. In respect of Ulstein, it is not realistic to locate another higher education institution in this area since there are already three such colleges in the county of Møre and Romsdal. Furthermore, it is possible to live in the Ulstein region and study either in neighbouring Ålesund or Volda, partly due to the way that some of the programmes in these colleges are organised as modules including distance learning packages. In Denmark, there is a limited need and tradition for strong state initiated regional policy. Although education policy, including the establishment of new educational institutions has been, and still is, a central focus both at the national and regional levels, it has not been combined with regional policy objectives. As a part of the national educational policy, in combination with regional resources and potentials in Bornholm, two institutions were however established in the 1990s, the Glass and Ceramics School and the Textile Design College. The educational 'menu' on Bornholm also includes nursing training and teacher training, as well as social worker training, all of which are delivered to Bornholm through a network of local annexes of higher educational institutions based in Copenhagen. All of the case study areas also have a palette of education and training programmes that form part of their labour market measures. In the Ulstein region, such training initiatives are often offered in collaboration with industry.

## Social Capital and Networks

Social capital and networks are interrelated features that appear as parts of the less tangible factors in the DORA model discussed in chapter 2. These factors deal with community factors such as shared associations and the cultural resources of people, values, local traditions and other similar aspects that can be hard to identify but nevertheless can be accredited considerable importance in terms of development. Social networks and social capital are linked in the sense that such networks are built upon personal and informal contacts and therefore to some extent draw on social capital. These concepts are widely discussed, but in this context, Putnam's (1993) definition of social capital highlights the role it can play for regional development. He defines social capital as features of social organisation, such as networks, norms, and trust that facilitate co-ordination and co-operation for mutual benefit. Strong social capital enhances the benefits of investment in physical and human capital and is created from the horizontal networks and relations between individuals, groups, and organisations in civil society. Here we can identify a link between social capital and social networks. The networks

build on shared values and norms and through these, members can gain access to social capital. Social networks are discussed further in chapter 2, but in this context, it is worth reiterating Gravnovetter's (1983) point on the capacity of such networks to provide people with access to information and resources as in Steve's story outlined above.

Social capital, with shared norms and values, is an asset at the same time as it can act as a barrier. This is particularly the case for individuals that do not share those values and may stand outside the networks. This may pertain to local people who do not subscribe to these norms, or to incomers to the region. Having views or a lifestyle that does not conform to majority norms may make it more difficult for an individual to find a job. Or, as one interviewee stated: 'the downside with the strong social networks here is that if you make a mistake, like I did when I failed in my business attempt, then they are not prepared to give you a second chance'. Another example of the importance of adjusting to the social circumstances is that of a woman in a small village in one of the island regions that stated, 'It was not really my decision, it was the circumstances'. This woman, who is a newcomer in her village, started to work at a local office when her first child was just a few months old partly because 'no other person was interested in doing the job and the service from the local office was needed'. When her second child was quite small she returned to her job because 'there were not enough children in the new day nursery, they "needed" both our children there'. After her third child, she left her job at the office. One of the reasons for this was that her deputy would otherwise have become unemployed.

There is no doubt that social capital and social networks play an important role in terms of people's ability to make a living in all six case study areas highlighted here. Many of the individuals interviewed had found a job through their social networks. An example of the importance of shared norms and values can be seen in respect of the emphasis put on the 'hard work' ethic mentioned in Åland, Eyjafjörður and Ulstein regions, in the latter this is also combined with traditional puritan norms. Having a job is a solid norm in these areas and provides individuals with a strong motivating force to find a job, move to another area for work, commute on a weekly basis, or start a business to make a living. Four of the interviewees in Åland had at one point or another lived away from their families and commuted on a weekly basis. In the Ulstein region the working norm is particularly strong among men, while it is a fully accepted norm for women with young children to take time out of the labour market and be full time home makers.

The social capital and networks factor, being such an intangible feature, is more difficult to identify and address in terms of policy programmes and initiatives. However, social capital in relation to regional development is about boosting identity and cohesion in a place such that the lo-

cal population is better able to take part in the rigours of economic life while also raising their quality of life. Public investment in cultural activities and infrastructure is therefore an example of policy initiatives that can provide a source of income and attract visitors at the same time as it can contribute to the identity, well being, and quality of life of the population concerned. Such investments and initiatives contribute to social capital and networks. Even among the interviewees in the case studies, there are persons that have found an opportunity to make a living thanks to public investment and commissioned projects within the arts and other parts of the cultural sector.

During the 1990s, an old industrial district from the early 20<sup>th</sup> century in central Akureyri in the Eyjafjörður region was transformed into a cultural district. This area now includes an art school, cafés, restaurants, galleries, lecture halls, and artists' apartments. This investment in the cultural district has proved a great success, creating jobs, providing a real attraction for tourists, while also enhancing the cultural life of those living in Akureyri. Another example from the Kainuu region is the expertise centre programme that aims at harnessing and developing local assets such as the music tradition in Kuhmo and the year-round winter activities in Vuokatti. This policy endeavours to develop the local labour market out of existing strengths. Furthermore, the development plan developed in connection with the Kainuu self-government experiment includes aspirations to promote the regional identity. The regional growth programme of Gotland does, for example, identify culture as being of importance both for the economy and for people and society more generally. The programme states that 'culture' has significant economic potential and should be supported both in terms of amateur and professional cultural actors and with regard to developing further economic activities based in the cultural field.

In the Ulstein region, cultural life and activities have a strong tradition, often in relation to music. As such, culture contributes to the nature of local identity and forms an important part of the area's social life where e.g. individuals from different social classes mix and act together. The more direct economic development potential that the strong cultural sector of the region offers has, however, not been harnessed to any great extent.

### **Institutions and Institutional Cooperation**

Institutions and institutional cooperation appear both as tangible and less tangible factors in the DORA model. The formal institutions are to be found among the various types of infrastructure in the model while the less obvious aspects of public sector institutions, i.e. 'how they work in practice' is seen as a less tangible factor along with the cooperation between institutions for a common purpose. The overall point here is that both the *presence* and *workings* of the institutions affecting the labour market and income systems are of great importance. The formal institu-

tions range from local authorities to universities. The mix of institutions that are involved in each of the six case study areas depends on contextual factors such as the areas' role within the national administrative system, and at which administrative level responsibility for e.g. labour market, regional development and educational initiatives rest. The important point here is to what extent the key institutions present in each case study area actually collaborate. Cooperation between different types of institutions in the same area adds to the presence of the institutions themselves. In this context it is worth reiterating a quote from chapter 2 where this matter is discussed further: "The importance of institutions thus becomes the role of promoting, framing and giving the various processes in operation their context. Regions exhibiting what has been described as 'institutional thickness' generally have an advantage over other regions". Knudsen (2003, 14)

Cooperation between institutions for a common purpose is also stressed. In insular areas with a limited population, these institutional factors can be quite closely linked to social capital and to networks because those working in the institutions are likely to be familiar with each other to a greater extent than could be expected in areas with larger populations. Good communication between the different components of the income system facilitates smoother transitions. For instance, co-ordination between the available educational and training opportunities and the types of companies and industries active in the region will ensure a better organisation of the flows within the income system.

Collaboration and even formal partnerships between institutions are important parts of most modern policies with regard to regional development strategies. It is also clear in all case study areas that key institutions such as the local and regional authorities, higher education institutions, the employment office, chambers of commerce, and the social partners collaborate in the work with such strategies. The limited means of the small institutions in most insular areas makes it even more significant to take advantage of the synergy effects of collaborations and partnerships between actors. In Bornholm for example, a deliberate strategy exists where the local employment authority collaborates with private sector firms and various organisations to identify present and future labour force demands. Interestingly, in the Ulstein region it seems as if the public sector actors are less active with regard to these partnerships than trade and industry.

The expertise centres in the Kainuu region are examples of institutional collaboration involving government institutions at the regional level such as the employment and economic development centres, local authorities and universities. It is the municipality that is in charge of running the project. Another example of institutional collaboration is the research building Borgir that opened in 2004 on the campus of the University of Akureyri in the

Eyjafjörður region. Several institutes have located here, and one of the aims with this investment is to strengthen their cooperation and their ties to the university and also to ease access to the institutes. One of the institutes has the role of promoting innovation in rural areas. Initially the Akureyri Region Business Agency was located here, though it was relocated in 2005.

There are also cases of concrete collaboration and attempts to shape 'the way that institutions work'. One example of this is the joint training of people working in the employment office and the social security office in Gotland. There are also a number of different institutions relating to the labour market co-located in 'Labour Market House' that opened in Visby, in 2004. The aim here is to help individuals to find different services relating to the labour market by locating them all under the same roof (providing a 'one-stop shop'). Another aim is to improve and develop the labour market in Gotland precisely through coordination and collaboration between different institutions. The employment office, representatives from the municipal adult education unit, from the local authority, and from the social security office in Gotland can all be found in 'Labour Market House'. (Statskontoret, 2005) In addition, in Åland, the Employment Office, the Vocational Guidance Office, and the Student Services office have merged into one co-located agency, AMS.

## Entrepreneurship and Self-Employment

Entrepreneurship and self-employment is an important theme that appears under several headings in the DORA model since it relates to e.g. networks, community, institutions and economic structures and organisations. As discussed in chapter 2, entrepreneurship is often seen as an important factor in economic development and initiatives promoting entrepreneurship and self employment are common in labour market and regional development policies. Entrepreneurship and self-employment are highly relevant to the labour markets and income systems of all the case study areas, and this is the justification for the separate study on entrepreneurship contained in chapter 9. However, it is also important to bear in mind that entrepreneurship is not only relevant for business start ups but is also an important factor in innovation within already existing companies and organisations.

In the context of this study, it is particularly relevant to repeat the distinction between opportunity-driven and necessity-driven entrepreneurship that is further elaborated in chapter 2 and empirically investigated in chapter 9. The categories can be seen as ideal types, and in practice, it is likely that entrepreneurial individuals are driven by a combination of these as well as other factors. Opportunity-driven entrepreneurs are likely to develop an idea generated from a line of business they have experience of, and take it forward to start a new company. Necessity-driven entrepreneurs, as the label indicates, start a company due

to a lack of other alternatives with which to make a living (See chapters 5 and 8). Particularly in the areas of Gotland and Åland there is a clear tradition of necessity-driven entrepreneurship, which sees people creating their own jobs and companies from which to make their living instead of, for example, migrating to another labour market area. There were also examples of this type of entrepreneurship in the Eyjafjörður region, while in the Ulstein region necessity driven entrepreneurs are particularly common during economic downturns and lay-off periods in the local manufacturing sector. In Åland, opportunity-driven entrepreneurs are also common. A third type of motivation, discussed in chapter 2, is that of the 'lifestyle' entrepreneurs. These entrepreneurs are not necessarily inspired by economic motives but are motivated to sustain (or improve) the way they have chosen to organise their professional and private life *as a whole*. The border between 'necessity driven' and 'lifestyle' entrepreneurs is, in part, subjectively defined by the entrepreneurs themselves. They may well feel that they have no option but to start their own business to be able to stay in the area and work in a line of trade that is of their own choice. In their view, the decision to become self-employed is a necessity even if they may have had a chance to get a job in their region but in a different line of business. A lifestyle entrepreneur, on the other hand, takes the decision to become self-employed as part of a more holistic strategy relating to how best to combine their working life with their private life in the context of their own household. Such entrepreneurs may be former 'high flyers' with busy, well paid jobs in major urban areas that decide to 'down shift' by becoming self employed somewhere with a slower pace of life, more time for the family and leisure interests and a good environment. (Breheny, 1999) Another version of the lifestyle entrepreneur may be that of the arts and crafts person who has a strong desire to be able to work and create within their field but has limited opportunities to find employment within that trade in the region. This type of entrepreneur can start a company to get some kind of income on their own arts or crafts work, and they may combine this with work in totally different kinds of jobs to be able to pay their bills. (Karlsson & Lekvall, 2002)

Policies and initiatives to support and promote entrepreneurship are present in all of the case study areas. This type of approach is seen as one of several ways to stimulate regional growth. It is above all the more opportunity driven entrepreneurialism that one attempts to encourage since companies formed from these types of motives are more likely to grow and take on employees than those began out of necessity or for life style motives.

An example of an initiative to stimulate entrepreneurship in the Kainuu region is the business incubator *Intotalo*, which is a part of the *Snowpolis expertise centre* in Vuokatti. The incubator activity also has a second site in Kajaani, the main urban centre of Kainuu. The aim of

*Intotalo* is to stimulate the development of an entrepreneurship culture in the region. A specific initiative here is the programme '100 entrepreneurs of tomorrow' that offers various types of business start-up support for entrepreneurs. In Bornholm, a network organisation entitled, 'Get off to a good start' (*Kom godt i gang*), with a publicly funded coordinator exists, targeting new businesses. The network organises activities such as courses and seminars with speakers from business life outside Bornholm, and it encourages networking between local entrepreneurs and micro businesses.

The types of initiatives designed to foster entrepreneurialism range from activities with young children still at school, to those designed by ALMI in Sweden. ALMI is a publicly owned company that supports business start-ups and also the development of already existing companies. This is done through two main functions, financing and business development. ALMI runs business start-up courses in collaboration with the employment office. In Norway, a national initiative called 'Young entrepreneurship' exists, which provides students in vocational secondary education with training and practical experience of business start-ups. The state owned company *Innovation Norway*, with a presence in all Norwegian counties, promotes nationwide industrial development including support for entrepreneurs both in relation to business start-ups and within existing firms in a number of ways. In Åland, the Chamber of Commerce and the *Åland Entrepreneur Association* are commissioned to support business start-ups and business development, while the Government of Åland is responsible for the financing of business development and the incubator activity. The incubator *Växthuset* is a part of the *Åland Technology Centre*, a unit directly under the Government, focussing on innovative and potential growth businesses.

## Quality of Life

'Quality of life' is another intangible factor in the DORA model. It is a subjective matter that relates to how individuals value different aspects of a region. 'Quality of life' relates to material well-being and access to public services, to the environment in the broad sense including nature and cultural heritage, recreational facilities, local cultures and so on. Since most insular areas have limited opportunities in offering a wide selection of jobs, and most of these areas also have a below average income profile, quality of life factors become more important in terms of retaining the population and attracting migrants. Investment in, and enhancing such quality of life factors thus constitute an important part of the various ongoing initiatives to facilitate regional development.

In all of the case study areas, this factor was stressed during the biography interviews, albeit in some areas more than in others. Several interviewees mentioned how it was difficult to find a job that matched their qualifications and

the salaries that one could get in other labour markets. Quality of life factors made it worth staying in the area however, or at least contributed to the reason for moving there or returning after having lived elsewhere. Many different quality of life factors were mentioned such as nature or cultural life, but also the general small scale of the settlements and the fact that they were considered safer and good environments for children to grow up in. The importance of ones roots and access to nature and 'the outdoor life' was mentioned by many interviewees in the Kainuu region, both in relation to being able to stay there or to move back.

An illustration of the importance of quality of life factors, and also that of decisions being made within the context of the entire household, is Pete's story. Pete started his own business in the regional centre of the case study area where he was born and bred. After having studied abroad, he worked both in his old home town and in the capital area. It was difficult to get a steady job in his field in his

home town. However, Pete found it easy to get a good job in the field in the capital but never found himself at home there. His wife Ellen came from the same town. She had studied at university, but not graduated. Ellen and Pete have young children. Now that Pete has returned with his family to their home town one can say that he is both a newcomer and an old resident of the area. Pete claimed that it is easier now to find a job in his old home town for those with a particular education than it was 10 years ago due to the diversification in the labour market and the establishment of the higher education institution there. Pete always wanted to return to his old home town where, in his opinion, the environment is more desirable. He mentioned that his old colleagues in the capital never understood his desire to return, but for him it was very important. Another important factor facilitating their relocation was that, thanks to the new higher education institution, his wife could now finish her university studies and graduate in her home town.

## Concluding Discussion of Soft Policy Recommendations

In this final section, we will conclude by discussing some of the 'soft' policy recommendations that are generated by this research. With 'soft' policy recommendations, we indicate that the research can provide some examples, ideas, and perhaps 'best practice', taken from the different case studies, but that it is not possible for us to make firm policy recommendations to practitioners and policy makers in these or any other regions. This can only be done by those with experience and an in-depth knowledge of the regions in question in collaboration with practitioners and policy makers in these areas. Our aim with this section is therefore to provide input to discussions of policies and initiatives to promote sustainable income systems in insular areas.

The soft policy recommendations can be further categorised into *two* types of policies, namely, labour market policies and regional development policies. The first category is directly related to the labour market system e.g. investment and initiatives in relation to education and training. The second type of policy concerns the context of the labour market, the broad development of living and working conditions in a region, e.g. infrastructural and institutional developments. Regional and local authorities have a certain amount of autonomy to act in terms of policies to promote regional development and smooth transitions on the labour market. However, they are all part of a national and international framework of rules and regulations where the regional level has limited power to act. An exception among the case study areas here is Åland, which due to its home rule status has powers of legislation and

policy making as regards the labour market and regional development. Finally, it is worth remembering that these two sets of policy areas are interlocked, and that, as such, policies benefit from being coordinated.

### National Regional Policies

One set of policy recommendations generated from the study can best be characterised as *national* regional policies. This should be understood as regional policies that are not in the realm of responsibilities for the individual case study areas or the administrative regions that they may be a part thereof. Hence, the political bodies in the case study areas cannot take these decisions themselves, but may be left to lobby at the national level for the realisation of such policies. Clearly, the national context of the case study areas varies and consequently the shape and scope of national regional policies affecting these areas are different. An obvious example of this is that of Åland, mentioned above, which has home rule status on most of these matters.

Clear examples of national regional policies are those that relate to the establishment of higher education institutions in insular areas. Such institutions are part of a national education system, but play an important role for regional development in the insular areas. Among the case study areas, the Eyjafjörður region, Kainuu and Gotland have benefited from such policies. There is no doubt that the regions gain from these higher education institutions in many different ways. In these areas, the transition from secondary school to higher education is lower than the na-



tional average and the educational level of the population as a whole is comparatively low. Having universities as an integral part of the fabric of local life, may contribute to social change such that young people in these areas, to a greater extent, continue to study. The establishment of the higher education institutions also provides a source of qualified jobs in these areas. This entails an influx of highly qualified people who can contribute to the development of the area, more tax income, and also provide an opportunity for local people that have already gained higher educational qualifications elsewhere to return to their home region and work. The importance of the University of Akureyri for the development of the Eyjafjörður region was stressed by many interviewees, and some wondered what would have happened to the region had the university not been established there in 1987. Important industries were crumbling at the same time as the university was in its infancy. To a certain degree, this development then compensated for job losses, but only in a limited way for the segment of the labour market that was losing its jobs at the same time.

In terms of modern regional development policy, higher education also forms a part of an active interaction process between different types of institutions such as local authorities and business support agencies. Through memberships of such networks and partnerships, they can take part in the development of regional strategies and also stimulate the development of new jobs and firms through harnessing innovations developed by students and staff. Examples of such initiatives include the *Borgir* research and innovation building at the University of Akureyri in the Eyjafjörður region, Gotland Interactive Park, a partnership that includes Gotland University and which, among other things, contains a business 'incubator', and the Kajaani University Consortium in the Kainuu region. In this way then the universities become increasingly important parts of the regional innovation systems. In Åland, the Maritime Safety Centre and the Åland Technology Centre are examples of activities, where the higher education sector plays an important role. Although there is no higher education institution in the Ulstein region itself, the University College in neighbouring Ålesund is highly relevant in this context. A 'Knowledge Park' that among other things includes a business incubator, support for entrepreneurs, and a Centre of Expertise has also been established in connection with the university college there. The Centre of Expertise focuses in particular on maritime technology and marine biotechnology. The knowledge park is utilised by actors in the Ulstein region. Among the case studies considered here it should however be noted that the less strong tradition of regional policy in Denmark is a distinct disadvantage for regional development in Bornholm.

Another example relating to national regional policies is that of the relocation of state agencies. Gotland has ben-

efited from this type of measure on several occasions, not least as compensation for the loss of military regiments in the last few years. Together with extra investments in University of Gotland, these additional state agencies will provide an important input to the Gotland economy.

## Education and Training

The theme of higher education institutions leads in to the wide and crucially important policy field of education and training. For all of the case study areas, this is a field that is of particular relevance both for regional development and for the labour market. Policies therefore range over more long term infrastructural investments into this factor and more specific initiatives and programmes as part of direct labour market measures. One basic theme of relevance in most of the case study areas is the need to increase the educational level of the population as a whole. This is partly to be done through trying to stimulate young people to continue studying after compulsory schooling and also after secondary school, and partly through providing further education and retraining opportunities for adults.

Important policies here deal with access to education, the provision of relevant education and training programmes and also funding systems that make it possible for people to actually take the courses. Moreover, it is often highlighted, particularly in relation to the further education and training programmes that are part of labour market measures, that it is vital to adjust such training to the needs and requirement of the labour market. In Bornholm and Åland, for example, the need to provide up-skilling and training that targets the specific needs of local businesses or growth sectors is mentioned. For areas that do not have their own higher education institution, such as the Ulstein region, the need to provide better channels and levels of communication with universities elsewhere is stressed. Collaboration between higher educational institutes and industry is well developed for some sectors of the economy (see below), but could be improved in other economic areas.

Insular labour markets are, by definition, characterised by limited interaction with other labour markets. This means that it can be difficult for individuals to find a job in the areas that match their qualifications and thus that it is difficult to compete with those job offers that may be available elsewhere. Similarly, it can also be difficult to recruit people with specialist qualifications and skills for which there is a demand in the insular areas. The presence of education and training opportunities in such insular areas can contribute to addressing this imbalance and provide a contribution to the dynamics of the insular labour market.

## Institutional Partnerships and Collaboration

Initiatives that stimulate and develop partnerships and collaboration between different types of institutions are seen as important to both regional development and la-

bour market policies in all of the case study areas. Institutional collaboration covers a wide field of issues, as for example that of regional innovation systems touched upon above. Collaboration between institutions such as higher education units, local and regional authorities, business support agencies, and private companies from different sectors and of various sizes, are all components of a regional innovation system. Innovation in the local economy has the potential to generate more jobs and particularly those with a potential for growth. In the Kainuu region, innovation is targeted through the four expertise centres, *Seniorpolis*, *Snowpolis*, *Virtuosi*, and *Measurepolis*. The latter being a cluster of measurement technology enterprises forming an expertise centre in cooperation with several higher education institutions, research centres, and companies.

Innovation can also entail the reshaping of a traditional industry such as the process of innovation that occurred within the agricultural and food industries in Bornholm and Gotland, leading to new products such as for example organic food and artisan food production. Another example here is the Ulstein region where the maritime industries that are so important have a long tradition of collaborating with higher educational institutes and the maritime Centre of Expertise in neighbouring Ålesund to stimulate innovation. In addition, the conclusions of the Åland case study also highlighted the fact that it is important to network with businesses, institutes, and organisations outside Åland in order to promote innovation within the core areas of the Åland economy.

Another policy area where institutional collaboration is important is in respect of entrepreneurship. It is worth pointing out here that entrepreneurship is something that exists both within large and small businesses and among individuals in different types of institutions. It is connected with innovation, and can result in new products and processes within a firm, or form the basis of a new company. As discussed above, in many insular areas it is quite common to become self employed out of necessity to earn an income rather than necessarily representing an entrepreneurial urge to start and grow a company. It is therefore extra important to find ways of supporting and stimulating entrepreneurs to *grow* their businesses. Collaboration between institutions to stimulate and support entrepreneurship exists in all of the case study areas and includes the provision of facilities such as 'incubators', business start up advice and the provision of venture capital. It is also pointed out that initiatives that attempt to combine entrepreneurship with networks of businesses in different branches and among employees may be a fruitful way of stimulating innovation. Another initiative is that designed to attain more accurate information on the needs of entrepreneurs through the use of targeted surveys.

Another aspect of institutional collaboration that is stressed in all of the case study areas is the need for liaison

between actors and agencies in the public sector, and with other key actors in the regional economy. In all of the case study areas, regional development strategies in one form or another are produced. The need to collaborate and to be able to pull together in working with the strategies is thus of the greatest importance. Furthermore, in instances of restructuring where many people run the risk of becoming unemployed, collaboration is needed to provide packages that will reduce the risk of individuals 'falling between chairs' in terms of different institutions. In Gotland, for example, a close level of collaboration between key actors such as the local authority, the employment office, and the university is put in place when major employers close down. In this way, different types of education and training packages were made readily available to provide opportunities for those losing their jobs, enabling them to retrain a foothold in the labour market. These programmes ranged from basic adult education for those that had not achieved final grades in compulsory school, to a tailor-made one-year university course in business administration.

Institutional collaboration is seen as important in addressing the problems of these vulnerable groups on the labour market. In particular, those with very limited qualifications, either young people or older members of the work force, are at risk of becoming marginalised in the context of the process of economic restructuring that will ultimately take place in all case study areas. In addition, people with poor health and immigrants have weak connections to the labour market and thus also risk marginalisation.

### **Investments in Transport and Communications**

Another important regional development policy field is that of investment in transport and communications. This type of investment often materialises through a combination of national regional development policies and locally generated regional development strategies. For insular areas it is hardly surprising that these types of policies are regarded as crucial. Transport and communications investments are important in terms of connections to other parts of the countries, particularly the capitals, or to major economic centres in the vicinity, such as that of Helsinki and Stockholm in the case of Åland. They are also of great importance internally in the insular area itself. All of the case study areas prioritise these types of investments and lobby for support from national governments within this area. There are several examples of great improvements in the transport networks between these areas and the national capitals, such as in the case of Bornholm and Gotland. Speedier and more frequent connections have, for example, made it possible for more people to engage in distance working. This, in turn, is also linked to the investments in information and communications technology, which facilitates distance working in some occupations. Making

sure that the broadband network is extended to reach the entire population of the insular areas is also important in this respect. Internationally, the trend is that distance working has increased in recent years although no exact figures exist on the extent of this form of working in the case study areas. However, data is available to show that around 1,000 persons that live on Bornholm work somewhere else. Some of these people work in the military, but it is also likely that these figures include an increasing number of distance workers. For those with tertiary level qualifications in the main, the combination of good communication links and well-developed information and communication technology facilitates a 'break out' from the insular labour market to tap into that of the capital. In the Ulstein region there are plans to build tunnels that will link the region with the neighbouring areas of Ørsta and Volda. This would provide access to complementary labour markets. Actors in the Ulstein region have also lobbied for improved flight and speedboat links.

### Quality of Life Factors

As we have seen above, 'quality of life' factors can be an asset for insular areas. For those that live in these areas factors such as access to nature, cultural and historical heritage and a calmer pace of life may provide such assets that make these areas attractive to live in. Living in insular areas or relocating to these regions often involves an element of 'trade off' between a career and a perceived better quality of life. Furthermore, particularly in the more sparsely populated insular areas, lower house prices can be another asset. Even for the more densely populated areas such as Gotland and Bornholm, house prices are still lower than in the capital areas, something that is particularly attractive in relation to the increased opportunity for distance working mentioned above. Access to housing is an important part of the quality of life and regional development nexus in general. For the majority of the workforce an attractive old farmhouse in Gotland or Bornholm is not an option, but insular areas must be able to offer good quality housing to all segments of the population. In Åland, examples exist of the lack of housing providing a significant barrier for some people to gaining employment and immigrating to Åland.

### Special Measure for Special Areas

As we have seen there are many similarities between regional development and labour market policies in the case study areas. However, the areas and their conditions also vary, and it is necessary to tailor any initiatives to fit these, and additionally, to provide special measures for special areas. All of the case study areas benefit from continuing to diversify their economies, but at the same time it is important to address the traditionally strong sectors of these economies as well. Åland, for example, has a particular strength in the shipping sector, and this should be addressed to promote its development and combat threats where possible. Likewise, the Ulstein region has an internationally competitive maritime sector that needs similar attention. In Bornholm, Gotland and Åland the tourism sector plays an important role and policies and initiatives targeting this sector should continue to be developed. The importance of the tourism sector in Bornholm also means that parts of the labour market are characterised by strong seasonality. Labour market measures have been developed to make it possible for people to avoid becoming long-term unemployed due to this seasonality factor, and instead they can combine working in the tourism season with measures such as job rotation and training, and perhaps spells of unemployment during other parts of the year. It is obviously an advantage for those individuals that long-term unemployment can be avoided, but at the same time, they are threatened by marginalisation if they never become fully established on the labour market.

Another example of this notion of 'special measures for special areas' comes from Åland. The archipelago part of Åland has very particular conditions and even though the general regional development and labour market policies of Åland as a whole also apply to this area, there is a need for particular measures here. There is a tradition on Åland and on many islands more generally of multiple job holding. This could be developed in a new way for example by training people in new technology applications in different kinds of occupations and jobs. As such, new technology should not be seen as being exclusively the domain of the ICT sector. This final comment, although made in relation to a very particular part of an insular area, is thus of relevance across the board in all of the case study areas.

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