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Municipalities' role in regional development: Navigating subsidiarity, place-based approaches, and geographical variation.

Abstract: Even though place is associated with the local, place-based policy approaches target the regional level of government. Addressing this conundrum, this paper focuses on the local level studying municipalities' regional development work in different types of regions in three Nordic countries. Through a comparative study across regional and national contexts, the paper identifies the need to clarify the strategies of municipalities in place-based approaches. The results explain the uneven capabilities and structural constraints of municipalities impacting the viability of the subsidiarity principle bringing policy design and implementation closer to citizens.

Key words: Change agency, regional development, municipalities, place-based policy, subsidiarity

JEL codes: R11, R58

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1 Introduction

Place-based strategies for regional development are at the heart of many debates within regional studies and economic geography. The idea of place-based interventions is grounded in a body of literature arguing for the necessity of context-specific development policies. The place-based approach emerged in the early 1990s as cornerstone of regional innovation policy (Corvers, 2019). An important milestone for advocating this perspective within the EU was the Barca-report (Barca, 2009), which influenced the formation of the EU's cohesion policy. According to Barca et al. (2012, p.139) a “place-based approach assumes that geographical context really matters, whereby context here is understood in terms of its social, cultural, and institutional characteristics”. The place-based approach entails a decentralization of regional development policy (Hermelin & Trygg, 2021; Mendez et al., 2021). This involves delegating mandates to lower levels of governments within a state, which significantly affects the role of sub-national political bodies including regional and local authorities (Pike et al., 2017; Rodriguez-Pose & Sandall, 2008).

This process of decentralization to implement place-based development policies has unfolded within pre-existing multi-level governance relations between the EU, national states and sub-national tiers for policy and planning. As regards to the sub-national structures, EU cohesion policy targets the regional level, which is represented through political-administrative bodies with quite different territorial and policy scopes across the EU (Corvers, 2019). Targeting the regional level for implementing place-based policies, however, entails a paradox because place is associated with the local, and hence local authorities should play an important role. The focus on the regional level meant that regional development work at the local level has remained under the radar in research and policy practice (Mendez et al., 2021).

The necessity to pay attention to and shed light on place-based development work at the local level of governance has become even more urgent considering the discontent by citizens expressed for instance in the yellow-west movement in France, anti-EU sentiments, or protest votes in many countries. This is reflected in the present EU program period (2021-2027), which explicitly highlights the importance of the local level through one of five political goals, which is to work for “A Europe closer to citizens through sustainable and integrated development of urban, rural and coastal areas and local initiatives” (European Parliament, 2023). Contributing to this important agenda of bringing Europe, and the place-based approach to development closer to citizens, this paper investigates the engagement of local authorities in place-based interventions in different local and national contexts. It situates the role of local authorities in place-based development processes within a multi-level governance context, considering policy interventions at the national level. More specifically, we focus on municipalities and ask the following research question:

How and why does regional development work of municipalities vary by regional and national contexts?

This question is answered through a comparative research design covering nine cases in three Nordic countries (Norway, Sweden, and Finland). The cases cover political-administrative territories of one or several municipalities. It is important to note that municipalities have a strong legacy and extensive competences in the three countries (Ladner et al., 2019). The cases constitute functional regions and are distinct from the political-administrative regional bodies in focus for the regional system for implementing EU's cohesion policy. This paper studies the involvement of municipalities in place-based development processes within the respective

functional regions over a period of three decades. Cases were selected strategically to represent a small and peripheral region, an entrepreneurial region, and a regional centre in each country, allowing for comparisons between regional types and between countries. This enabled us to investigate the interplay between local and national agency in relation to decentralized and place-based development initiatives applying an approach sensitive to multi-level governance interactions (Hermelin & Trygg, 2021).

2 Literature background

2.1 The principle of subsidiarity

The role of sub-national tiers for EU cohesion policy needs to be understood from the principle of subsidiarity, introduced in the 1992 Maastricht Treaty (Moodie et al., 2022). This Treaty governs how the competences of the EU are used. The cohesion policy for regional development represents one important competence of the EU and a main part of its budget. It is explained that the principle of subsidiarity should be implemented through “leaving room for the most appropriate level of governance” (European Commission, 2018:3) which implies arguments for decentralization of political competences to empower sub-national-level actors (Moodie et al., 2022). However, it is found that this principle of subsidiarity has “been vaguely defined and narrowly applied” (Moodie et al., 2022:866). This has motivated EU to advocate for ‘active subsidiarity’ striving for “a stronger voice to the local and regional authorities and national Parliaments” (European Commission, 2018:6), and in this way enhance the role of the 280 regions and 80,000 local authorities (European Commission, 2018). Consequently, the Committee of Regions is commissioned to “raise awareness amongst their members [i.e., the regions and local authorities] about the many opportunities to contribute directly to the EU’s policymaking” (European Commission, 2018:12; cf. Committee of Regions, 2019). This aligns with one of EU’s regional policy objective for 2021-27 that is “Bringing Europe Closer to its Citizens” (Moodie et al., 2022, c.f. European Commission, 2018) and with ambitions to develop place-based territorial governance policy instruments (Moodie et al., 2022).

In the pursuit of bringing Europe closer to citizens and implementing the subsidiarity principle, municipalities should play an important role as they represent the local political level and should have the highest level of local, context-specific knowledge. In addition, municipalities often have mandates and competences that are relevant for regional development related for instance to welfare services, education, and infrastructure. While the financing of these services follows different logic in different countries, it is often linked to the number of inhabitants and local income generated. Hence, municipalities do have a strong interest in providing job and income opportunities locally, as this relates to their capacity to provide for the wellbeing of their inhabitants (Pike et al., 2015).

2.2 The place-based policy approach in context

A place-based approach is in principle well aligned with the subsidiarity principle as it assumes that geographical context matters and underlines the importance of local actors in shaping development interventions. The place-based approach emphasizes the importance of knowledge in policy intervention: Who knows what to do, where and when? Following the place-based approach, these questions can only be answered considering the specificities of places, thus stressing the role of embedded local knowledge and social capital (Barca et al., 2012). Recognizing the importance of geographic contexts also connects to the concepts of path-dependency and regional trajectories (Bronlow and Budd, 2024). In addition, there is a long-standing literature emphasizing the role of institutional conditions for place-based development (Farole et al., 2010; Rodríguez-Pose, 2020).

The institutional contexts of local governments can be approached from three dimensions (i) regulations and formal rules, (ii) structures of actors and networks for interactions, and (iii) formations of social capital, values and norms (Glückler, 2020). The first pillar relates to the multi-level governance structures that local authorities are embedded in, which vary across national systems, i.e., the formal position of local authorities within the multi-level structure and which mandates, competences, and resources they are assigned to. The top-down steering from EU and national governments towards local authorities include formal measures through regulations, financial streams to encourage and influence the design of local interventions in particular directions, and soft steering through information and communication of policy goals and best practice. This first dimension of an institutional approach to decentralized development policy (Glückler, 2020), highlighting the importance of vertical interdependencies between levels of governance, has gained less attention in regional studies as compared to the other two pillars. Yet, such multi-level interdependencies shape how the principle of subsidiarity can be enacted as they shape the conditions for local policy actors to take strategic initiatives and to be involved in place-based policy interventions.

The argument that the place-based approach is able to support development towards equal living conditions across regions (Barca, 2009) has, however, also become debated. Arguments point at the risks that the principle of place-based interventions means to undermine the redistribute policy interventions, increasing risk of uneven development (Iammarino et al., 2019; Weck et al., 2021). This is recognized through the innovation-paradox according to which those regions that would need development the most, are least capable of fostering it (Oughton et al., 2002). These critical voices are relevant for this paper because the ability of local authorities to engage in place-based initiatives may vary depending on the context-specific preconditions.

2.3 Change agency

Responding to the need to better understand regional change processes, multiplex governance, and varieties of place and development pathways, the literature on change agency has recently developed rapidly (Grillitsch and Sotarauta, 2023). It stipulates that a variety of actors can engage in multiple ways in regional development processes (Hassink et al., 2019; Jolly et al., 2020; MacKinnon et al., 2019). However, the preconditions for such engagement, the agentic patterns, and potential outcomes also depend on the regional context (Nilsen et al., 2023).

Agency is therein defined as “intentional, purposive and meaningful actions, and the intended and unintended consequences of such actions” (Grillitsch & Sotarauta, 2020:707). Actions can be directed at change as well as at maintaining existing structures or systems (Bækkelund, 2021; Jolly et al., 2020). As regards to change agency in regional development, Grillitsch and Sotarauta (2020) differentiate in three theoretically distinct forms: First, *innovative entrepreneurship* is about novel combinations of knowledge and resources to bring about new products, processes, or organizational forms (Asheim et al., 2017; Fleming, 2001; Strambach & Klement, 2012). The second type of change agency, *institutional entrepreneurship*, refers to the engagement of actors to change existing informal (e.g., values, norms) and formal (e.g., laws, regulations) institutions, or introduce new institutions (Battilana et al., 2009; Garud et al., 2007; Weik, 2011). Third, *place-based leadership* captures actions to navigate the interests of local actors and mobilize and pool resources with the intention to contribute regional objectives (Bailey et al., 2010; Collinge 2011; Sotarauta & Beer, 2021). In addition to these primary forms of change agency, Sotarauta et al. (2021) identify four forms of supportive agency or roles, which municipalities could take. *Vision brokers* contribute by imagining new futures and thereby breaking away from what already exists. *Support actors* help other actors through for

instance opening doors, networking, or providing resources. A *mentor role* would imply advising and teaching agents in their efforts to make a change. Finally, the *critic* plays the role of the devil's advocate by asking cunning questions.

One key tenet of the agency approach is that the actor's engagement is always embedded, contextual and relational (cf. Glückler, 2020). Grillitsch and Sotarauta (2020) establish the relation of agency to structure through the notion of 'opportunity spaces', arguing that these have different levels, i.e., are actor-, region-, and time-specific. Agency is temporally embedded in structures that were built in the past, in the contingency of the moment, as well as in projections and expectations about the future (Emirbayer & Mische, 1998; Garud & Karnøe, 2001; Grillitsch et al, 2022; Steen, 2016). Previous research shows the interdependence between regional context and agency that can be understood to be effects of varying actor structures and power relations (Nielsen et al., 2023) and varying informal institutions (Kurikka, 2023; Stihl, 2024). Also power-relations across political levels condition local agency (Görmar et al., 2022). Times of crisis can be periods when local actors learn new ways of intervening. However, for local actors who are used to top-down influence and support, there are few opportunities for learning (Sotarauta et al., 2023), which affects the agency at the local level to engage in place-based initiatives.

3 Empirical Study

3.1 Method

To study how and why regional development work of municipalities varies across regional and national contexts, this paper analyses regional cases from three Nordic countries. Data collection for the cases was conducted between 2018 and 2023 with similar research strategies, but by different researchers within the context of two different research projects. The analysis in this paper is based on extensive case reports from the conducted case studies as well as a joint database of specific local initiatives or actions, which covers the regions' agentic patterns from 1990-2018. The case reports as well as the database are based on 156 interviews (average 17 interviews/case, approximately 60-90 minutes/interview), primarily with local actors. The analysed data also included local and regional strategy documents, previous research, newspaper clippings, company reports, and more. Using path tracing (Sotarauta & Grillitsch, 2023), the analysis of the cases traced critical events and the engagement of different local actors in relation to these events over 30 years. For this paper we have selected nine regional cases. These cases were selected to cover three regional types one of each in Finland, Norway, and Sweden. This selection allows us to study the national and regional context embeddedness of local agency (Nilsen et al., 2023; Rekers & Stihl, 2021)

Table 1: Three types of regions.

Regional type	Characteristics
Small and Peripheral regions	<ul style="list-style-type: none"> • Small and often shrinking populations in peripheral locations. • Organizationally very thin and sometimes dominated by a core firm. • Often resource-based
Entrepreneurial regions	<ul style="list-style-type: none"> • Many small or medium-sized firms • Strong industrial tradition • Known for entrepreneurial and business-oriented mindset
Regional centres	<ul style="list-style-type: none"> • Medium-sized towns in the Nordic context • Relatively diversified economies • Differentiated support system for innovation, including presence of a university / higher education institute

The regional types are small and peripheral regions, entrepreneurial regions, and regional centres, with characteristics described in Table 1. Figure 1 locates the nine cases on the map. Table 2 lists the nine cases and states the number of municipalities that each case covers and their respective population statistics.



Figure 1: Map of the nine case study regions

Table 2: The nine case study regions and population statistics

Cases	Country	Number of local governments/regions	Pop. 2020	Pop. Change 1990–2020
Small and peripheral regions				
Eastern Lapland	FI	5	15 700	-42,8%
Kirkenes	NO	1	10 100	+4,2%
Kiruna	SWE	1	22 700	-13,3%
Entrepreneurial regions				
Gislaved/Gnosjö	SWE	2	39 200	+0,4%
Jakobstad	FI	5	49 700	+3,0%
Ulsteinvik	NO	5	28 100	+9,6%
Regional centres				
Arendal	NO	6	85 000	+25,8%
Borås	SWE	1	113 700	+11,7%
Salo	FI	2	60 200	+0,6%

Source: StatFin, 2024; Statistics Norway, 2024; Statistics Sweden, 2024

3.2 Empirical context from the Nordic region – three decentralized unitary states

All Nordic countries are decentralized unitary states with strong local autonomy (Keuffer & Ladner, 2021). This is reflected in high scores for the self-rule index compared to municipalities across Europe. For the Nordic countries, Finland had the highest score for the self-rule index followed by Sweden and Norway (Ladner et al., 2019). The municipalities have extensive responsibilities for welfare services and physical planning (Sandberg, 2023). The local governments leverage incomes taxes in Finland, Norway, and Sweden. The tax incomes of municipalities in the Nordic countries are the highest among all EU countries. It corresponds to substantial shares of GDP in Finland and Sweden (with 23% respectively 24%) and to 16% in Norway (Eurostat, 2023). The main tax income to the local governments comes from individual taxation in all three countries. In Finland and Norway, the municipalities also levy property tax and in Norway the municipalities levy a small share of business taxation. As the income of municipalities in the Nordics is directly linked to regional development, this presumably nurtures some expectations on local governments to support local industry besides the wide responsibilities towards the local population. However, the responsibilities of municipalities for regional development are unregulated in the Nordics and leaves room for strong variation across the Nordic countries in how local governments engage in regional development work (Hermelin & Trygg, 2021).

Recently, there were several reforms for the organization of the sub-national political and planning systems in the Nordic countries, with most concrete implications for the county/regional level. This has involved institutionalizing planning capacity for regional development on the territorial scale of counties which are the regional bodies with responsibilities for implementing EU cohesion policy. The political steering of these bodies is through direct elections in Norway and Sweden and through cooperation between municipalities in Finland (Sundqvist, 2022). According to a recent comparative study Finland and Norway, in contrast to Sweden, have various national instruments to intervene in situations for radical regional restructuring (Tillväxtanalys, 2021).

4 Findings

The following section describes conditions for agency and agency patterns of local governments in the selected cases representing three types of regions across three national settings.

4.1 Small and peripheral regions

The three cases of small and peripheral regions are Eastern Lapland (Finland), Kirkenes (Norway) and Kiruna (Sweden) and are all located in the far north of their respective national territories (Figure 1). *Eastern Lapland* is located in Finland by the Russian border. It is very sparsely populated (even in a Nordic setting) and has had a negative population development throughout several decades (decrease of 41%, 1990-2018). This region has traditionally relied on big external employers harnessing local natural resources (hydropower, forests, minerals, and northern nature). Between 2002 and 2008, the region lost 1500 jobs due to three large closures within pharmaceuticals, electronics, and pulp. Hence, today the region relies on a large public sector. *Kirkenes* (or *Sør-Varanger*) in Norway, has an ice-free harbour and borders to both Finland and Russia. Traditionally, the iron ore mine has been important, but the region also hosts firms within tourism, fishery, and cross-border trade with Russia. The state-owned mine was closed in 1996. It was reopened by a private actor in 2009 but closed again in 2015. Finally, *Kiruna* is a geographically large and sparsely populated municipality in Sweden, bordering both Norway and Finland. The town of Kiruna was established in parallel to the establishment of the iron ore mine around 1900 which has much shaped local development. In contrast to Kirkenes, the mine extracts ore underground and continues through a state-owned company (SOE). In the shadow of the mining industry, there is growing tourism and space industry.

As just described, the three cases have their own particularities. Yet, they also share several characteristics and challenges, not just with each other, but with many similar regions in the Nordics. The regions have small and often shrinking populations. Furthermore, education levels are lower compared to national averages. The regions have roots in and are still dependent on natural resources and on the operations of large firms which counteract the development of entrepreneurial activities. In terms of networks, the regions can be considered institutionally thin. The local government have generally been expected to take the lead in regional development (but might not have done so) in the absence of other active local leaders. These regions are vulnerable to external decisions (e.g., from national government or large firms with headquarters outside the region), for instance leading to plant closures and subsequential out-migration.

Moving to the role of local agency with focus on the municipality within the multilevel planning system and beginning with *Eastern Lapland*, this region was the target for regional policy subsidies promoting further industrialization during the 1960-1980s. This was motivated by the harness of hydropower in the region. Following the entry into the EU in 1995, the Finnish state diminished direct subsidies for industrialization as well as public policy instruments targeting peripheral regions. The municipalities have stepped forward to take roles in place-based leadership on multiple occasions. This has been in response to the planned closure of a public train line in 2006 and of a pulp factory in 2008. With a tradition of large employers, Eastern Lapland has low levels of SMEs and entrepreneurship. Development policy has aimed to import and replace previous large firms. However, efforts have in several cases been less successful and not able to develop new local growth paths. Challenging factors include low levels of innovative and institutional entrepreneurship and the thinness of active local agency. Following the large plant closures the area was defined as a region of ‘abrupt structural change’ by the

central state, giving it targeted funding which has e.g., been used by local actors to initiate a new growth path in a related industry.

In *Kirkenes*, the Norwegian state was less involved in the early development of the main growth path, iron ore mining. This was done by an external private funder. Kirkenes was heavily destroyed during WWII and due to its geopolitical importance as the frontline of the west during the cold war, the city and the mine were rebuilt with national funding. During the global steel crisis in the 1970s, the then state-owned ore company started showing negative results. In the early 1990s, several of the Norwegian SOEs were doing so badly financially that it threatened the national budget. Amongst others, the mine was closed in 1996 by the national parliament and infrastructure was sold off in pieces. Yet, the central parts necessary to be able to reopen the mine again were sold off as one unit. This sent a signal to the local community that there could be new opportunities for mining. When the mine got new private investors a decade later, it gained much community support. The municipality supported the growing tourism industry as a new development path already in the 1980s, yet it was in general met with skepticism by the local community. In contrast to Eastern Lapland, Kirkenes exhibits weak place-based leadership throughout the study period. The municipality's inability to join local actors during the restructuring phase after the first mine closure created a long-lasting rift between local public and private actors and the national government instead led the process. Yet, the national government policy including its sanctions towards Russia has also negatively affected room for local agency.

Kiruna was developed as a mining community and up until the 1950s, the mining company was by far the strongest local actor. Similarly to Kirkenes, the steel crisis in 1970s hit Kiruna hard. However, through product and process upgrade, the SOE survived the crisis and has later become quite profitable. Yet, the crisis in the 1970s locally meant large job cuts and a large outmigration. This became a trigger for local discussions about alternative futures development trajectories avoiding dependency on natural resource-based industry. Nevertheless, a growing tourism industry in the early 1990s was met by local opposition. In 2003, after a series of municipal infrastructure investments to aid the mine, the municipality took this opportunity to use both place-based leadership and institutional entrepreneurship to form a new local development plan which focused on diversification. It prioritized space activities (research and industry) due to its potential to attract external funding (national governments and supranational organizations). However, later the same year, the SOE declared that the town centre and a third of all inhabitants would have to move due to predicted land deformations from continued mining. The town move has proven highly complicated and complex. The local government sought support from the national government during the first years of this work, but experienced that it was never heard. Consequently, the local government has been forced to focus on the town move rather than using their agency to work with their strategy for local development. Active local actors are few, and a lack of place-based leadership has resulted in actors not managing to pool their resources to strengthen their agency.

Combining the three cases shows structural constraints of small and peripheral regions dampen the potential of municipal agency. National governments and external large firms continue to restrict the manoeuvrability of these municipalities, and since entering the EU there is less national support. Nevertheless, it is important to recognize local initiatives and local agency and that can be seen for all cases. The case of Eastern Lapland showcases how a few individuals can be enough for place-based leadership. However, this case is supported through a national program for funding local development.

4.2 Entrepreneurial regions

The three entrepreneurial regions comprise of Jakobstad (Finland), Ulsteinvik (Norway), and Gislaved (Sweden). Located at the west coast of Finland, *Jakobstad* have a high relative share of the Swedish minority and a rather stable population over time. Over the last three decades, Jakobstad has transformed from being dominated by big corporations into an increasingly diversified economy with many family-owned SMEs in areas such as the food and forest industry, yacht building, and other manufacturing. The region has no higher education institution, but its vocational education and training school has recurrently been ranked the best in Finland. Ulsteinvik is situated in the coastal islands of Sunnmøre. Its population has been increasing over the last decades, even with some periods of decline such as during the early 2000s. *Ulsteinvik* has a long tradition in the fishing and shipbuilding industry. While it lacks higher education institutions in its own labour market, a knowledge park and university campus in the neighbouring region play an important role for regional development. The region has weathered several cycles of boom and bust, which were related to changes in global markets. Located in south-western Sweden *Gislaved's* population has remained stable over the study period. Gislaved is characterized by a high-density of SMEs in areas such as fabricated metal products, rubber and plastic, and mechanical engineering. The region does not have higher education institutions, but one is located within 100 km.

Even though the regions differ in their industrial specializations, and somewhat in size and accessibility, they have important commonalities. The three regions build on a long tradition in manufacturing. However, rather than suffering continuous decline like other manufacturing regions in high-cost countries, business-driven innovative entrepreneurship and place-based leadership has led to an upgrading and diversification of their industrial base over the last decades and high export ratios and employment rates. Attracting and retaining a qualified workforce is a key challenge in the three regions. Yet, unlike the small and peripheral regions, they have not experienced population loss. The respective regions are also characterized by relatively low education levels in terms of the share of employees with academic qualifications. Yet, vocational education and training, and on-the-job training play an important role. The three regions are all known for their entrepreneurial and business culture. This shows in the high density of locally- or family-owned SMEs, and innovative entrepreneurship has played an important role for maintaining competitiveness in changing market conditions. In addition, the business culture relates to a strong engagement of the business community in place-based leadership, which includes building innovation and knowledge support systems as well as public infrastructure and services.

Jakobstad region is an exemplar for shared place-based leadership where the business community is often taking the lead and where the municipality takes on a supportive role. The Regional Development Agency Concordia, established by the municipalities in 1999, created an interface and more visible role of the municipalities in regional development. One important role of the municipality is the provision of vocational education and training (a municipality-owned federation). The municipalities are often providers of resources such as land and facilities but can also take a more active role, in particular for infrastructure development. An illustrative example is a railroad where a group of business representatives discussed the prioritization of infrastructure investments, then contacted the municipalities and Concordia, and together they approached the national level to lobby for such infrastructure investments. Overall, there is a higher willingness to take risks, which some respondents extended also to the engagement of the municipalities. One example is an initiative at the end of the 1990s where the city of Jakobstad collaborated with the forest company UPM to provide the energy for the district heating system by making use of the firm's wood waste. In this case, the municipality

took not only the role as place-based leaders mobilizing resources but also became active in institutional and innovative entrepreneurship, suggesting a new symbiotic partnership and engaging in the energy sector. Overall, the national government is apparent mainly in relation to infrastructure investments.

In *Ulsteinvik* region, actors from the business community take on prominent roles as place-based leaders and engage in local politics, which goes back to the founder of one of the main yards who was also mayor of the municipality of Ulsteinvik. The municipalities, however, see themselves rather in a supportive role while the business community takes the lead. Municipalities have a stronger involvement in relation to the built environment and infrastructure. For instance, leading business representatives together with mayors intensively lobbied at the national level for a bridge and tunnel system, which was approved in 2002 and opened in 2008. This was very important for the region as it created a larger and more diverse labour market. The role of the municipalities and in particular the mayors was also more pronounced during the crisis. Firms were calling for a mobilization of the political connections of mayors to make their voice heard at the national level. For instance, a mayor together with business leaders lobbied at the national level for support from the Norwegian export bank. Furthermore, mayors were approached by business leaders to assist in securing refinancing. As regards to the support structures for regional development, the business community initially took the lead. However, the national level was important to develop the support structures through a range of programmes targeting regional development. The region benefited from several cluster initiatives (such as Global Centre of Excellence Blue Maritime and the National Centre of Excellence Blue Legasea). Furthermore, the national level plays an important role in education, with a campus in the neighbouring labour market being an important source of knowledge for the local industry. Also, in the observation period the Norwegian Research Council's Programme for Regional R&D and Innovation contributed to enhance research-driven innovation in the region.

Also, in *Gislaved* (including Gnosjö), local business owners were engaged in place-based leadership and contributed to public infrastructure and services such as playgrounds, fire stations, swimming halls, and bus lines. However, the findings suggest a fragmentation between the business community and local governments. It was striking that the two municipalities and even villages in the region entertain separate business associations. The fragmentation between municipalities and the friction between the business community and the municipalities are a bit surprising considering the commitment of local business owners to the community. It also differs from Ulsteinvik and Jakobstad regions where a similar commitment exists, but where the municipalities took a more supportive role towards the business community. Gislaved municipality articulated the aim to connect local businesses more to a science park in the regional government body. While this would be a way to address the relatively low level of educational attainment, there is locally still scepticism towards highly educated labour.

The commonality across the three cases is the strong involvement of the business community in place-based leadership, which in Jakobstad and Ulsteinvik developed into a symbiotic relationship with the municipalities who took on supportive roles in relation to developing infrastructure and knowledge support structures, and to mobilizing non-local networks and resources. In the case of Jakobstad, the municipality even engaged in innovative and institutional entrepreneurship in collaboration with the business community. In Gislaved, however, the relation between the business community and municipalities is both fragmented and disputed, which relates to different visions for development but also a lack of coordination between municipalities.

4.3 Regional centres

Arendal (Norway), Borås (Sweden) and Salo (Finland) exemplify regional centres with comparable diverse set of industries and higher education level among the local population. Compared to the regions described above, regional centres have a larger population, and a more diverse set of active local actors. *Arendal* region is in southern Norway. During the study period, its population has grown substantially (Table 2). The oil & gas supplier sector as well as the electronics sector dominate the local economy. The region's HEI was merged from several small colleges into a joint university which has greatly benefited local path upgrading. *Borås*, located in southwest Sweden, has a tradition of entrepreneurship. The dominating industries in textile and garment production underwent a series of crises in the 1960-1980s leading to outmigration. Since 1985, the region has slowly recovered through the growth of related industries (logistics, IT, design, marketing, etc.) that gained from resources set free from the many firm closures. The region has also benefited from a growing HEI, established in 1977. Finally, *Salo* is found in southern Finland. Unlike the other two regional centres, Salo has been shaped by one large, dominant firm, namely the mobile phone producer Nokia, with a large local supplier network. Salo therefore shares some similarities also with the small and peripheral regions (i.e., a dominant actor creating local cognitive lock-ins). After Nokia's closure in 2012, Salo has tried to find a new path while utilizing existing competences.

Although the three cases of regional centres all have been dominated by a few central industries, it is only Salo which has been so tightly tied to one single company. All the cases have some form of higher education. Arendal and Borås with universities/university colleges, were able to benefit more from them, compared to Salo which only has a campus with a smaller set of educational programs and research.

Arendal's tradition of oil & gas supplier activities starts with pioneering activities in offshore service during the early 1970s. Although the industry grew into being the dominant, with a set of large firms and many small, it was locally both fragmented and poorly connected. To change this, local actors initiated a cluster with strong support of both regional government and the university. To complement the development, the university (through national funding) also initiated new related educational programs. The cluster grew to the extent that it in 2014 was awarded the title of Global Center of Expertise, giving it 10 years of national funding. The electronics sector has developed in a similar manner. The core firm in this sector was supported by the National Development Fund for Rural Areas when it was started in 1962 and was later bought by Ericsson. Local politicians and industrial leaders formed several initiatives following the downturn of electronics/ICT during the 1990s with the intention of securing the survival of the sector and avoiding loss of valuable competences. Several support structures were built related to the industries since 2000 with different intentions (retain competences, stimulate local economic development, create meeting places, and increase research and development). These acts of place-based leadership and/or institutional entrepreneurship have had strong support from both the local and national government. They have resulted in an increase in innovative entrepreneurship, as well as to become a networked region with stronger inter- and cross-sectoral collaborations, and increased application of scientific knowledge. An enabling factor for this development has been the merger of six local colleges into one university college, which later was given university status. This development was part of the national government's wish to consolidate the HEIs in Norway.

The crises in textile and garment production in *Borås* (in 1960-1980s) set the municipality into a downward spiral. The national government tried to assist individual firms and the industries overall through protectionist measures, but the industries could not handle the global

competition and many large firms went bankrupt. Furthermore, the national government assisted Borås in the 1970s by locating a state authority in the town, lobbied for other industries to move there as well as founded a university college in the town. However, both the local government and the community had low self-esteem following the crisis and used little change agency. Meanwhile, local entrepreneurs developed several new firms in related industries through innovative entrepreneurship. In the early 2000s, the local government started using change agency, and through place-based leadership and institutional entrepreneurship started investing in Borås (physical place and image of the town) together with local entrepreneurs. This has developed into several projects and networks. The local government also strongly supported a private developer who wanted to build a centre for design and textile in an old textile factory, pushing the HEI to also move in. Together, local actors have brought back the textile brand as a proud heritage. Local informants described the national government as distant and not engaged in their regional development. Nonetheless, the local science park received 10-year funding from Sweden innovation authority for developing smart (technical and sustainable) textiles in 2006. Additionally, the national government has recently given the HEI the task to build a national platform for sustainable textiles and fashion together with other local actors. To conclude, local actors in Borås express that they are masters of their own success, yet there are several national initiatives which have assisted them in their development.

Salo had a growing population between 1990 and 2010, a growth which is strongly related to that of Nokia's and their need to attract more competences than could be sourced locally. The success of Nokia meant that the city of Salo didn't need any state subsidies and they focused on supplying public services, rather than local economic development. Due to Nokia's dominance, Salo does not have a tradition of innovative entrepreneurship. The downturn for Salo started already in the early 2000 when Nokia decreased orders from their local subcontractor cluster and instead promoted foreign suppliers. During this gradual crisis the mayor started to contact the national government to make Salo a region of 'abrupt structural change' to gain national funding. Using place-based leadership, the mayor, together with a new planning group of other local and regional actors, started creating a rescue strategy and initiating a local development company. When Nokia later started laying off personnel as well and, in the end, sold their mobile phone business to Microsoft in 2013, the local government where quick to act. Both by assisting those who were laid off and to attract an international replacement firm. Yet, Microsoft closed their activities in Salo in 2015. To retain competence, a few local actors (incl. local government) bought the Microsoft premises and managed an initiative focusing on IoT. Support structures for start-ups were created by the municipal development company and the HEI campus also chose to move to the site. Salo continues to develop their new future and has done so by mainly place-based leadership and some institutional entrepreneurship to move beyond being a Nokia-town. In this process, state funding has been supportive and state level personnel have made things move more fluent.

To sum up this last regional type, the local governments in these types of regions have more opportunity space than the others. They also acquire various national support, that the others do not get. Explanations for this are partly inherent in their positions to represent regional centres for national infrastructure including HEI. With their large population and therefore a larger municipal organization, there are more individuals who can push for or support change agency (such as place-based leadership or institutional entrepreneurship) and there are more people who can build on initiatives using e.g., innovative entrepreneurship. With the presence of HEIs, they can also more easily attract national funding for innovation projects, centres for expertise, or national platforms. Nevertheless, the case of Salo shows how local government's agency can be restricted by a single firm even in a large regional centre. So, size alone does not fully help us understand patterns of agency.

4.4 Discussion

The above account of the results provides evidence for similarities and variations across regional and national contexts as regards to the engagement of local governments in place-based development processes. Local governments across all the investigated regions are quite active in regional development work, yet in different ways and with various results. The empirical results prove that municipalities take on different change agency roles in place-based development processes. These variations are related to differences in local actor capabilities, interests, and networks; local institutional conditions; the embedding of municipalities in multi-level governance structures; and experiences of interventions of non-local actors such as the state and large companies. This means that the findings of this paper relate to the proliferation of research on regional development unpacking variations of local institutional contexts, local agency, and path-dependency. This includes, for instance, the impacts of entrepreneurial culture (Stihl, 2024) and the vulnerability of peripheral resources-based regions (Görmar et al., 2023; Sotarauta et al., 2023).

In contrast to this, the local-national interplay in relation to place-based development processes is hardly discussed but, as this study shows, strongly affects the possibilities of municipalities to engage in such processes. This paper illustrates how national state interventions make a difference in the ways in which municipalities can engage in regional development work. The empirical findings also illustrate that the national governments mostly play an indirect role and provide a quite uneven support to place-based development, which is particularly evident in the uneven access to national infrastructure with focus on HEI and transport infrastructure. The empirical material also illustrates variations in the way national states manage programs targeting regions suffering from large-scale industrial restructuring for which Finland and Norway are more active compared to Sweden. The results also confirm the described differences between national policies in support of local interventions for regions facing industrial restructuring (Tillväxtanalys, 2022). In addition, we found evidence that a long-term oriented national cluster program has been supportive of place-based initiatives in Norway for the investigated regional centre and entrepreneurial region. We could not identify a similar national intervention in Sweden or Finland. The embedding in national governance structures in the Nordics thus influences the possibilities for municipalities to engage in place-based processes. Common across the Nordics is, however, that the role of the state differs between regional types manifesting in uneven support for place-based initiatives.

Moreover, the observed variations between the regional types as regards the potentials and limitations of local authorities to engage in place-based regional development relates to the innovation paradox identified in the literature (Oughton et al., 2002). Municipalities in regional centres have favourable conditions to engage in place-based regional development by both leveraging local capabilities and giving directionality to development. Municipalities in small and peripheral regions, in contrast, are rather constrained in delivering on place-based regional development. Often, there is either a lack of economic activities leading to outmigration and decline, or economic activities are under the control of non-local actors and are of state interest. Municipalities are in a difficult position to resolve potential conflicts of interest, leveraging or building local capabilities for development. Municipalities in entrepreneurial regions can partly deliver on place-based regional development by supporting the business community. However, they have less favourable conditions to provide directionality in place-based regional development as compared to the regional centres. This also relates to the uneven availability of state resources and funding in, for instance universities and infrastructure, which benefits mainly regional centres.

5 Conclusions

This paper sheds light on the role of local authorities in place-based development processes. Even though place is associated with the local, EU cohesion policy implementation arrangements target the regional level with little attention to the local level in policy practice and research. This links to the concept of subsidiarity, which is a fundamental EU policy principle demanding policies to be designed and implemented as close as possible to citizens. Moreover, in the wake of widespread discontent expressed by citizens through e.g., yellow vest movements, protest voting, and anti-EU sentiments, one of the main goals of the EU is to bring Europe closer to citizens. The involvement of local authorities, which is the level of governance closest to citizens, becomes thus paramount.

The conclusion of this paper is that the enactment of the principle of subsidiarity is suboptimal in the context of the investigated three Nordic countries. The mandate of municipalities for regional development work remains undefined even though they are in many ways the strongest and most institutionalized sub-national levels of government in the three countries, have mandates that are related to regional development, and are dependent on regional development for sourcing tax income. Despite the lack of mandate, municipalities are involved in place-based development in all cases although in different ways, and with different outcomes, which relates to the context in which the municipalities are embedded. Consequently, to live up to the expectations of the principle of subsidiarity and bringing Europe closer to citizens, it would be necessary to clarify and articulate the mandates and roles of local authorities in place-based policy approaches vis-à-vis the regional and national level, and develop implementation arrangements, which are attentive to the uneven capabilities and structural constraints of local authorities to perform regional development work.

We acknowledge that the empirical evidence for this paper is drawn from three Nordic countries, and that the situation will differ in other national contexts. However, as the three Nordic countries have decentralized states with strong local autonomy, where municipalities also levy high tax income as compared to other countries, it can be assumed that the possibilities for local authorities to engage in place-based development processes is higher than in more centralized countries. More centralized governments are also less likely to encourage effective local leadership (Beer & Clover, 2014) which would further enhance the difficulty of bringing Europe closer to citizens and implementing the subsidiarity principle.

Overall, the paper points to the importance of multi-level governance of regional development and the necessity to facilitate a more effective, transparent, and accountable interface between municipalities and regional bodies, as well as between municipalities, regional bodies, and the national state considering the wider conditions for implementing European regional development policies. This paper clearly identified difficulties in this regard and could connect them to geographical contexts. Future research and work in policy practice needs to zoom in on these interfaces between governance levels, and what design principles could apply considering differences in geographical contexts as well as differences in national governance structures.

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