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The Swedish Start-up Grant. A Qualitative Study of Success and Failure***

Background and aim

In social debates it is often argued that it is in the small-scale companies we should place our trust as providers of future employment. Burns (1996) describes how, what he calls, a love affair took place between Great Britain and her small firms during the 1980th. It was not possible to open a newspaper without being exposed to stories about prosperous small enterprises. However, just as in all love stories, the interest cooled down and became even more pragmatic when the governmental grant to entrepreneurs was cut off. In Sweden for example, Prime Minister Göran Persson has said that it is in the small-scale companies that the future jobs will be created and that it now is high time to provide room for the new entrepreneurs. The giving of grants for the establishment of small firms has also been held up as a good example of an important and successful labor market policy (Ringholm 1999). However, there are also some critical contributions to the debate, for instance regarding the rules

Abstract

Start-up Grants (SG) for the establishment of small firms has been held up as a successful labour market policy. This study shows however that success and failure could be viewed on different levels and from different angles. On the *company* level, the SG can generate success by allowing for a flexible start, but also contribute to a breakdown by it's rules and regulations. From an *employment* perspective, the grant in itself can both "open" and "close the doors" to future employing opportunities. On the *individual* level the SG can put people in conditions imprinted by financial difficulties and deficient work conditions.

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regulating the grants, and that owners of small firms hardly see it as their task to create employment. They would rather work alone without employees (Cowling & Mitchell 1996; Johannisson 1991).

The contributions to the debate on the Start-up Grant (SG) – as the labor-political measure with focus on the establishment of small-scale businesses is called – are based mainly on quantitative descriptions. In order to arrive at other and more nuanced explanations it is necessary to discuss the meaning of the words *success* and *failure* but also to study individual grant receivers and their business concepts in depth. The aim of our study was twofold. First, we wanted to identify the factors behind successful SG ventures. Second, we wanted to map out those factors that contribute to the failure of certain projects in regards to the firm's survival as well as to the individual's employment and living conditions.

The Start-up Grant

The SG can be given to people who are, or run the risk of becoming, unemployed and who instead can become engaged in a business of their own with the help of financial support from the state during the start-up phase. The grant is on par with the level of unemployment insurance and is awarded during a maximum of six months. According to the regulations for labor-political activities (SFS 1998:1784) the purpose is "to strengthen the individual's chances to find regular work" (ibid.1§). It can be granted to people "who are considered potentially suitable to run a commercial/trade business and whose work has a chance of becoming profitable enough to provide the individual with stable employment" (ibid. 30§). The number of unemployed who has been given the grant has increased sharply during the 1990th. Carling and Gustafson (2000) state two main explanations for this. The increase reflects partly a conscious change of focus in the state's labor politics, partly the presence of a big percentage of well-educated unemployed people at that time, who also were considered suitable as entrepreneurs.

Many OECD countries have programs similar to our SG, and between 0.5 and 4 percent of those who draw unemployment benefits

participate in this type of activities (OECD, 1995). For example, Great Britain introduced the "Enterprise Allowance Scheme" (EAS) at the beginning of the 1980th.

The effects of Start-up Grants

We can confirm that there is not very much research-based knowledge on SG and the effects that it has had on the labor market. Every time a follow-up has been made in Sweden it has been in respect to how many people still are in business a certain length of time after the end of the allowance period. The time perspective varies, but the results point in the same direction. A great number – between 60 and 75 percent – is still active three to four years after the 6-month period (see for instance Bengtsson & Gustavsson 1998; Kronholm 1997; Gustavsson 1995; Westin & Bäckström Flyckt 1992).

International evaluations of start-up programs can be divided mainly into two groups: those where the authors look primarily to the employment aspects and often conclude that the measures are successful, and those who take on a wider perspective and end up with a more hesitant attitude concerning the positive effects.

To the first group belongs a British study of unemployed people who had received financial support in order to get started. A follow-up study was conducted after 12, 18 and 30 months respectively (Bryson & White 1996). The aim of the study was to judge the effects of self-employment as a remedy for long-term unemployment and compared this with the effects of traditional job hunting. The result showed that those in both categories with the highest education and best qualifications more easily found employment. However, the self-employed had more stable jobs.

The evaluations that show the more negative results have focused on the significance of the grant, partly on the degree of company survival, partly on the welfare of society at large, and to what degree the new companies are able to create jobs. In a study on the outcome of corresponding grants in different OECD countries (Aronson, 1991) the conclusion is drawn that the measures do not lead to any improvement for the unemployed. Rather, countries with a high

unemployment rate and big groups of poor have a high share of self-employed people – the self-employment considered rather as a consequence of unemployment and poverty.

Yet the British small firm researcher Storey, who has analyzed the effects of EAS, expresses another criticism against this type of measure. A study from 1990 shows that 43 percent of the EAS-companies are gone after three years (Storey, 1994). The corresponding number for other small-scale businesses is approximately 35 percent. The low survival rate is also the most serious criticism that Storey aims at EAS. He also points to the fact that more than 60 percent of the jobs that were created three years after the EAS start have been provided by only four percent of the newly started businesses. That, says Storey, strengthens the opinion that one should select those who have the greatest chances to succeed. Therefore, the support should be directed at high tech companies and at education and research in the technical field. One of his points is that not just anybody should be given the chance to start a business with the help of a grant in just any field. Some programs such as EAS, training for future owners of small firms, information and simplified administrative regulations do give some positive effects, but for the measures to be effective they need to be on a macro economic level according to Storey. For instance, he mentions politics that support technological development, scholarships and aid for those companies that truly have a potential for growth. Birch (1987) is still sharper in his formulations when he claims that general programs for small firms can be considered more or less wasted money since only three percent of them will ever expand.

Thus, we can conclude that the picture of SG and its effects are ambiguous. The results depend to a great extent on the author's perspective and what variables are in focus.

Success and failure factors

What, then, are the factors behind successful and unsuccessful SG projects? We note that attempts have been made only to a limited extent to isolate the grant and its consequences. Instead, traditional success factors are stressed such as the right product on the right

market etc. One commonly referred to study of growth in small firms is Storey's comprehensive overview of the conditions in the UK (Storey, 1994). Unemployment plays an important part, i.e. the higher unemployment rate, the more small-scale businesses and vice versa. Factors associated with unemployment are the general economic situation, consumers' disposable income and interest rates. According to Storey, limited effects are achieved with public politics. For example, lowered marginal taxation results in decreased working hours, and reduced payroll taxes lead only to a limited extent to new jobs.

As for the EAS he claims that the results point in different directions, why it is not quite easy to have an opinion on its importance; however, he is skeptical to this kind of general grants. Swedish evaluations of SG show that companies in the workshop and building industries as well as in the transport services show a higher than average rate of survival (AMS, 1996). Earlier positive experiences and business people among friends and acquaintances are also stressed as positive elements (Eriksson & Markström, 1998). Here we can note that it is common among researchers to attach great importance to individual factors. Not seldom mentioned is the individual's desire to be independent and to fulfill his/her dreams, a good education, family background and profit orientation (Johannisson, 1991; Barkham *in fl*, 1996; Birley, 1996; Bryson & White, 1996; Delmar & Davidsson, 1997; Wiklund, 1998).

Usually, one does not consider failure factors when studying small-scale ventures but treat them more implicitly as the flip side of the success factors. In the category of failed ventures there is clearly an over-representation of weak groups on the labor market such as women, individuals born outside Europe and long-term unemployed (AMS, 1999). Other factors that can lead to a downfall during the grant period are illness, pension, maternity leave and discord with the business partner (Bengtsson & Gustavsson, 1998). Also, poor profitability and lack of money can often explain a breakdown (see also Storey, 1994; Lindh & Ohlsson, 1995; who have studied small-scale establishments in general).

The Questions at Issue

We can say that the main interest among those who have studied SG has been aimed at the rate of survival in combination with the employment aspect and to a lesser extent on the individual's continued employment, and hardly at all on aspects such as working conditions and quality of life. With this in mind, we have formulated the following questions:

- What success and failure factors emerge in a company built on SG regarding survival?
- What success and failure factors emerge in a company built on SG regarding the individual's possibility to get a regular job?
- What success and failure factors emerge from the individual's point of view in such ventures?

Method

Since the purpose with the project was to map qualitatively different factors that affect the result of a business establishment with the help of SG, we chose a qualitative attempt. We interviewed 34 people from eight municipalities in the province of Värmland. They were selected according to the principle of strategic or theoretic sampling, i.e. we choose respondents who are as different from each other as possible in a number of ways such as gender, class, ethnicity, degree of unemployment (long or short-term unemployment), locality and economic sector (Holter, 1982).

The interviews lasted between 45 minutes and two hours and were carried out with the help of a questionnaire guide based on our earlier literature search on small-scale business establishments and SG. They were taped and written out whereupon we coded them with the aid of Strauss and Corbin (1998). This means that they were summarized in key words and concepts, later combined to form categories and, finally, presented as *success* and *failure factors* respectively. Ultimately, these factors were put in relation to earlier research in the field and thereafter assembled in an explanatory model.

Result and Analysis

As mentioned earlier, success and failure can be considered with the point of departure in the company's survival and growth. It can also be seen from the standpoint of the individual's employment – which is the main purpose with the program. Finally, we can also see success and failure from the standpoint of the living conditions that the business produces. In the appendix we summarize the success and failure factors that crystallized in the data material.

Success and failure from a company perspective

Financial support is a decisive factor for the success of the business venture. Those who succeed often have other sources of financing to count on than their own company, should the business encounter difficulties (Bryson & White, 1996). SG is in itself such a source. It affords the possibility of a *settling-in period*. Everything does not need to function perfectly from the beginning. The link to the unemployment insurance fund also means that one's livelihood is secured even after the end of the grant period, if the endeavor were to fail completely.

At the same time as the grant can generate success by allowing for a flexible start, so also can the rules and regulations contribute to a breakdown. In the interviews it became clear that the regulations are too rigid, partly concerning the time span, partly concerning return to the unemployment insurance fund. One of the respondents described a seasonal activity and said that he after the end of the grant period was prepared to continue the business another six months without the grant to get the experience from a complete season. First thereafter could he decide if it would be able to support him. In order to risk this he wanted to know – as a security measure – if he would have the same unemployment compensation if the company would not pay its way. But according to the rules, one has forfeited the right to the compensation if one continues the business another six months without the grant. That was a risk he did not want to take, so he decided to liquidate the firm. We cannot judge

the marketing conditions in this particular case, but it is clear that his job was seasonal in nature, yet the rules governing the grant precludes the possibility of experiencing seasonal fluctuations.

Training in administrative work offered together with the grant can prepare for success. If this training turns out well, it will help the candidate to understand and take control over the company's development. Yes of course, some respondents said, they had been through the program but that it seemed quite fragmented and was difficult to grasp. When they finally got started with the real book-keeping etc. they could pinpoint what they ought to have learned during the training period, but now there was nobody to ask. Consequently, they might not have good enough a grasp on the results to make the right financial decisions. This is an example of *lack of administrative support*.

We interpret this as though some form of administrative support is needed even after the decision to give the grant has been made and the operation is underway. Especially since the SG is aimed at people with little experience of running a business and who therefore need extra support. Storey (1994) comes to other conclusions regarding the effects of public politics, as mentioned earlier, when he says that there is very little evidence that training, information or advice would either lead to survival or to growth in small firms. At the same time we need to remember that an important point of departure for Storey is growth itself, why the job is to select and support the most suitable candidates who can generate a profit. The SG, on the other hand, is launched by the state with the main purpose of creating employment for individuals out of work.

The importance of a support system around the SG companies is discussed by a number of researchers, not seldom in the terms of networking (Birley, 1996; Cantzler, 1998). Even if some descriptions of networks are fairly detailed, we feel that the network concept includes all too many different parts - it covers everything from bank contacts and regional political programs to family ties. The concept has become too wide and tends to lose its meaning in this context. Therefore, we have chosen to speak in terms of *social support* instead of networks, which also more or less explicitly is assumed to be the purpose of the network in this context. Here we can distinguish

between support from friends, colleagues, mentors and backing from society. The different types of social support can be described in the form of circles around the self-employed.

Personal support in the form of words of encouragement is very private and can come from a wife/husband, parents, siblings or close friends. Such support has been associated with a gender dimension in earlier studies (Bryson & White, 1996; Sundin & Holmquist, 1989) based on the assumption that the motivation for entrepreneurship is gender specific. Men often run their business as a project for their main provision, while women to a greater extent view the enterprise as a strategy to be able to combine work and family. Hence, personal support takes on different meanings for men and women. Despite that fact that we do not have access to any quantitative material, we seem to note a similar pattern also in our study. The personal support is especially important in those situations when problems and crises arise in the relationship with the supporting person. A divorce situation, the illness of a close relative etc. is sometimes claimed to be the failure-triggering factor.

Sometimes the support comes from a partner in the firm - something that is discussed in a study on SG in a number of OECD countries (Bryson & White, 1996). They found that partnership contributes more to the success for men than for women. The support from the colleagues can also come from people who operate a similar business or from people who participated in the same training course. One of the respondents told us that she had lost contact with her old colleagues since she started the firm, and that she had not been able to replace them with new ones.

I notice that my friends ask me why I never come over and have a cup of coffee with them any more. Earlier, when I had some spare time, I usually went and had coffee somewhere; that's how it was. [...] They probably feel that I am boring now.

This experience can be interpreted as isolation -something that in the long run can lead to failure. It depicts some kind of movement between classes in society, where the isolation is based partly on the fact that the former colleagues represent other values. This is discussed by Elmlund (1998), who claims that it is easy to forget that a

change of employment usually does not lead to change of class, but that a transition from being a wage earner to being self-employed per definition involves a change of class.

Referring to our metaphor with the social support as rings around the entrepreneur, we have placed the mentor support in the third ring. This differs from having colleagues and can be considered more as a tutor –student relationship. The significance of having a tutor is mentioned also in other studies on the SG (Grefwe, 1999).

The next ring consists of what we call local support. Simply stated, this means to what extent people in the area buy the company's products or services. The willingness to favor the newcomer can be seen as an expression of acknowledgment and to a certain extent as an appreciation of the new business, implying social support.

In our results there are indications that local support is of great importance for the success of the venture. In the traditional industrial communities, the local population has difficulties in accepting small firms. This pattern is documented in the employment statistics as well as in the analysis on company climate that municipalities conduct on a regular basis. In comparison with the country at large, industrial communities have a small number of entrepreneurs and are consequently positioned way down on the list of municipalities with a good company climate. The people in these communities rely heavily on the single industry in town for employment. This trust is also combined with a mentality based on the idea that "don't think you're better than anybody else".

The last ring around the entrepreneur illustrates the support from society including everything from the Prime Minister's statement that Sweden will rely on the small-scale businesses for future employment to the authorities' attitudes and actions on the regional and local levels. In our study, it is primarily in communication with the Employment Service that the support from society is reflected. But, local Employment Services have different policies in applying the rules and regulations regarding the requirement of (risk for) unemployment, something that is also indicated in other studies (i.e. Carling & Gustafson, 2000).

Success and failure from an employment perspective

We have mentioned earlier that most follow-up studies of SG focus on the entrepreneurship as such and not on the employment aspect. However, in our interviews there are examples of SG leading to a regular means of livelihood even if it does not happen in the newly started business. The SG is a successful undertaking when the new firm continues to supply the owner with what he needs. But it can also be valuable by "opening the door" to another and steady job or destructive by "closing the door" to future employment opportunities.

This could be described and explained with the help of the labeling concept (Scheff, 1966), which is used mainly in connection with deviant behavior, but something that also can have a supporting capacity in this context. The labeling theory is based on the thought that people are labeled, or in other words marked, as deviant. In this case it means that the individual cannot provide for him/herself but has to rely on public support.

One of the respondents stressed this feeling in a clear way. He had a job in marketing and shared offices with other business people. When we interviewed him, he took great caution in closing the door to his office and made sure that the interview guide would not be visible so that any of his colleagues could see that he had received SG.

Even if the labeling has been used mainly in a negative sense, it can also be used to describe the opposite – in this case as a "door opener". To develop and run a business for a period of time can provide knowledge also for the benefit of others. One man, a carpenter, who had terminated his business at the end of the grant period was now employed by a building contractor just because he had experience from running his own company. He considered himself a valuable worker in the eyes of the employer just because he had a business of his own and therefore was familiar with the conditions for entrepreneurship. He said:

I got this job only because I have had a company of my own, and, because I am a carpenter of course.... But is also like this that the man I work for knows that I know that it isn't so easy to be a small-scale

businessman and that I therefore put in a little extra effort to make both ends meet, even if it isn't my own firm.

The fact that he had been an entrepreneur gave him the label that he was someone who takes a hold of things, makes himself available when needed and is cost-conscious. Another example is the Internet consultant who, for the lack of traditional capital, turned to the Employment Service and received funding. During the grant period he built his business and thereafter developed it gradually to a company with seven employees. Eventually he sold the firm to an international competitor who also employed him. The original company is gone, but he and his seven colleagues had found employment in the branch.

Success and failure from the perspective of the living conditions

Up until now we have viewed the SG from a business and employment perspective. Success from a business point of view can also be so from an employment point of view as well as from the individual's perspective, or rather: The company survives and the founder stays. This is an expression of his/her ability to avoid unemployment, to *support oneself* and show proof of independence.

What is not discussed normally but what is of great importance for the individual is the question of what living conditions the labor market policies lead to. In our interviews people express such problems as abnormally long workdays, isolation, poor premises and tools and financial difficulties. Let us present a concrete example of the latter. A situation that we call the *financial fox* trap is when a venture from a business and employment perspective stands out as a success but for the individual is experienced as a flop. The company still exists and employs an earlier jobless individual. With this, the goals of the labor market policy are fulfilled. However, the entrepreneur is stuck in a forced situation characterized by isolation, long working hours and economic pressure. He has been offered employment by a competitor and would like to accept, but he cannot. The reason is that he has been forced to borrow money in order to survive, and

the borrowed money makes it impossible for him to terminate the business.

Every day I think about quitting, but it doesn't happen. I am dead tired of this, but I haven't got much choice. I have all the loans that I can't just forget about. That would mean a lot of debts to pay for the rest of my life. I have to grit my teeth and carry on. But I wonder what I have gotten into and think: God, how great it would be to be employed by someone else and be rid of the responsibility.

The funding has stimulated him to escape unemployment, but at the same time it has placed him in a financially pressured situation – an economic fox trap that he feels is impossible to escape. Others expressed similar experiences. For example, the inventor who received a big loan at the bank despite the fact that he, knowing the results, should not have accepted. We can point out that the SG gave him a better negotiation opportunity with the bank. He had already had his business concept judged and accepted by the authorities. In addition, the man and his invention were presented in the local papers, which put more pressure on the bank to grant the loan. We can draw two conclusions from this. First, what seems profitable from a business and/or employment perspective does not always need to be so from the individual's perspective. Second, the SG can give the bank or other financial institution the indication that the authorities approve of and support the company – a declaration that can be disastrous for the individual.

Concluding words

Our study does not contradict earlier results claiming that the SG is a successful labor market measure. However, we want to present a somewhat nuanced picture of the measure in different aspects. When we widen the perspective from focusing on the survival of the company – and to a certain extent on the employment as such – to include the entrepreneur's financial conditions and working conditions, a somewhat different picture appears. Since our material is qualitative in nature, we want to stress that we cannot comment on

how frequently other conditions occur. For instance, we do not know how often the rigidity of the grant regulations hampers the work, or that the training offered by the Employment Service is considered providing/not providing sufficient administrative support. Neither do we know to what extent the SG labels people in a positive or negative way, or how many have been given the opportunity to stay in the home community thanks to the grant. Nor do we know how many have ended up in a financial fox trap and/or been forced to work under poor working conditions. However, we have shown that such conditions exist; to what extent would be interesting to research further.

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Appendix

Success and failure factors of the SG.

Perspective	Success factors	Failure factors
<i>Company</i>	Settling-in period Administrative support Social support	Rigid regulations Lack of administrative support Lack of social support
<i>Employment</i>	Positive labeling	Negative labeling
<i>Living conditions</i>	Possibility to support oneself Good working conditions	Financial fox trap Poor working conditions

