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From shop fronts to home offices: Entrepreneurship and small business dynamics in urban residential neighbourhoods

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Chapter 1. Introduction

1.1 Introducing the neighbourhood economy

In the 1970s and 1980s many observers feared for the existence of small neighbourhood stores, often labelled ‘mom-and-pop’ stores. It was expected that the bakery, the butcher and the local grocery store would all be squeezed out of the market by large retail chains and multinational companies (Massey, 1984; Shachtman, 1997). The trend of increasing economies of scale, mergers and acquisitions, and the advance of transnational corporations, in combination with a trend of suburbanisation, informed the belief that there would come a time when most economic activities, including shopping and offices, would be located outside of cities, along highways. It seemed that developments in the field of communication and transport would only accelerate this process. In some respects these expectations have become reality. Nowadays we can see large shopping malls on urban fringes and office developments along highways in many places. Yet, small and medium-sized businesses are still around and have even regained importance in the urban landscape, although their meaning, form, and function have changed. Aligned with changes in the economic structure towards new technologies and knowledge-intensive activities, a process has occurred by which the urban environment has become more instead of less important as a locus of economic activities (Scott, 2012).

Not all cities have been equally affected by these developments. Some are still struggling with the effects of de-industrialisation and the transition to a new economy. Yet, also in these cases, small businesses are often seen as bottom-up game changers. In the first stages of processes of ‘urban resurgence,’ new business activities were mainly infused in inner-city districts. However, as de-industrialization progressed, less central neighbourhoods also evolved into convenient sites of economic activity. Seemingly sleepy, mono-functional residential neighbourhoods, increasingly became places of work and business. Also, some of these neighbourhoods emerged as locations for consumption and leisure activities.

This dissertation focuses on the people, the places and the institutions that shape neighbourhood economies. In this study, the concept of ‘neighbourhood economies’ is defined as the collection of businesses in a residential neighbourhood; the shops, offices, and also the home-based firms that we find in residential neighbourhoods. As such, these mostly involve small to medium-sized enterprises (SMEs¹) and a large number of self-employed people, i.e. one-person firms.

¹ Defined by the European Commission as firms up to 250 employees.

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The study examines entrepreneurial opportunities and behaviours within the context of residential neighbourhoods in advanced urban economies, although it does not include an investigation into labour market dynamics or informal (unregistered) economic exchanges.

Galster (2001) defined the concept of neighbourhood as a nexus of spatially-based attributes. This means that a neighbourhood is not 'just' a spatial entity, but a place where social, economic, residential, political and infrastructural characteristics intermingle and form a specific context. At the same time, urban neighbourhoods are not closed systems; they are connected to other parts of the city and to other scale levels, such as that of the city and the urban region, by means of flows of people, money and other resources. Economic and political developments on higher scale levels also affect the configuration of neighbourhood characteristics. With these statements it is clear that the neighbourhood, and the neighbourhood economy, are complex phenomena. In this study, I aim to approach the phenomena from various angles: the viewpoints of people who are entrepreneurs in residential neighbourhoods; the spatial context of the places from which they run their business; and also the local policies that are designed to shape these places and their local economies.

What do we gain by understanding economic dynamics in residential neighbourhoods? On the one hand, we can observe the residential neighbourhood as if it were a sort of 'microcosm' of the social, institutional and economic changes that play out on urban, regional and a global scale-level. Neighbourhoods offer us observable places where processes like migration, globalisation, and economic restructuring crystallise. On the other hand, neighbourhoods help us to understand overall urban economics. Although the economic dynamics of residential neighbourhoods have many specific characteristics, they also shape – and are shaped by – social and economic processes on an urban level. In this way, neighbourhood economies may tell important stories about entrepreneurship, processes of production and consumption, and their spatiality.

The main question I will answer in this dissertation is:

How can we characterise the economy of urban residential neighbourhoods in advanced urban economies, and which social, economic and institutional differences contribute to explaining variegating outcomes in neighbourhood economies?

To answer this question, I adopt the mixed embeddedness approach (Kloosterman,

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2010; Kloosterman & Rath, 2001; Rath, 2002; Kloosterman, van der Leun, & Rath, 1999). This is a theoretical approach to explaining the ‘what, where and how’ of economic transactions outside of the dominant neo-classical framework of economics. It conceptualises entrepreneurs as rich actors who are confronted with a time-specific and place-specific set of opportunities and constraints. Shaping these opportunities and constraints are the economic, social and institutional dimensions of the context within which entrepreneurs operate. Within this approach, structural elements such as policy arrangements, regulation and market conditions, as well as agency in the form of entrepreneurial behaviour, have a place. The mixed embeddedness approach is thus concerned with the context within which economic In this study, the context within which entrepreneurs operate is the residential neighbourhood. Therefore, I apply the mixed embeddedness approach to a specific spatial context. This study will contribute to our understanding of 1) how the economy of the urban residential neighbourhood is changing as a consequence of macro-economic changes and changes in urban governance. 2) the mechanisms through which economic actions are embedded in the neighbourhood in ‘structures of social relations’ (Granovetter, 1985).

Following the same approach, I will start by outlining the wider changes in the capitalist production system and urban governance that are connected to changing market conditions and economic policies on the level of the city and the neighbourhood. I will outline these processes that play out on higher scale levels, yet crystallise in residential neighbourhoods. Then, I will return to the mixed embeddedness approach and explain how it can be utilised in understanding neighbourhood economies.

1.2. The transformation of urban economies

First, we have to consider how the economy of residential neighbourhoods is connected to contemporary urban economies in advanced capitalist countries. The work of Allen Scott (2008, 2012) has been very important in explaining how the manifold transformations in production systems and consumption patterns have made the city re-emerge as the focal point of modern-day capitalism. The term re-emergence is used by various scholars to indicate that the economy of many cities in the Western world is now seen as ‘resurgent’ after a period of decline that set in during the early 1970s (Scott, 2008, Storper & Manville, 2006). The period before this ‘urban crisis’, which spans the greater part of the twentieth century, was dominated by growth and expansion with the development of mass-production. Characterising the urban spatial trend in this period was an increasing separation of functions in space within individual areas or neighbourhoods.

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In the Netherlands, during the period of Post-War reconstruction and economic growth, many economic activities located outside, but close to, large cities. With Fordism unfolding, places of production needed more space, space that was affordable and that could offer increased car accessibility. This could be found on industrial estates at the edge of cities and close to suburban areas. The dynamics of urbanisation were geared towards urban expansion and suburbanisation. Many families from the upper and middle classes moved to suburban areas, leaving lower-middle class, working-class and immigrant inhabitants of inner cities behind. Because urban planning policies in the Netherlands put limits on urban expansion, Dutch cities never reached the stages of urban sprawl that characterise many American cities (Van der Cammen & De Klerk, 2012). Nevertheless, the depopulation of inner cities and the economic oil crises of 1973 and 1979 resulted in urban crises for many Dutch cities that lasted far into the 1980s (Ibid.). This was a time where many cities, especially inner cities, in the United States and Western Europe were struggling with economic restructuring, low-quality housing and declining attractiveness as business locations, and hence, declining employment (Storper, 1995). In the Netherlands, this crisis was partly dealt with by renewed investments in inner-city areas from the mid-1970s onwards, setting the course for a long period of urban renewal strategies (Van der Cammen & De Klerk, 2012).

After the economic crises of the 1970s and 1980s, the Dutch economy started to make the transition from an industrialised economy to a service-based and knowledge-based economy. The Netherlands and other countries that had been thriving under the Fordist system of mass production now faced increased competition for large-scale manufacturing from emerging low-wage economies. At the same time, markets for mass-market consumer products started to become saturated. Macro-social processes like individualisation, women's emancipation and immigration fundamentally altered consumer markets and concurrently production systems needed to adapt in order to stay profitable. Piore and Sabel (1984) documented the shift from mass production to an economy of flexible specialisation, as characterised by smaller firms, flexible batch production, and a need for skilled labour. Scott (2008, 2011) as well as Lash and Urry (1994) have analysed how this flexible production system has increasingly become dominated by products and services that are infused with symbolic and semiotic value. High-tech and creative economic activities, as well as (financial) services are now the most important sectors of advanced urban economies. Small-scale and flexible production have become more important in a swiftly changing consumer market. The practice of producing large quantities of standardised products has been mostly replaced by the practices of innovation and 'discovery' (or creation) of new consumer (niche) markets. These practices are largely based on information processing through digital technology and online communication. In many sectors, niche markets have

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taken the place of mass markets – and at the same time, fashions and trends within these niches are changing rapidly, demanding flexibility and continuous innovation from entrepreneurs in production and exchange activities. This is reflected in the emergence of distinct (urban) consumer cultures (Scott, 2010).

Together with a shift in sectors, the tendencies towards vertical disintegration and outsourcing, as well as the erosion of economies of scale, have created new opportunities for small firms and the self-employed (Kloosterman, 2010). Small-sized and medium-sized firms can more easily offer specialised production, adapting their services and inputs to quickly changing consumer demands. They can offer independent, flexible (business) services with relatively low start-up costs and minimal investments in production capital and labour, keeping their prices competitive. The changes in the system of production can be linked to changes in the factors of production: large investments in capital and labour are no longer prerequisites to starting a firm, effectively lowering the barriers to entry for nascent entrepreneurs. These changes culminate in a sort of capitalism that has been labelled ‘cognitive-cultural’ or ‘post-Fordism’ or are simply referred to as the ‘new’ economy (see also Hutton, 2004; Scott, 2012).

How does this relate to the economic resurgence of the city? With the progression of the ‘new’ economy, some researchers initially thought that due to a lessening of the dependence on natural resources as well as the digitisation of production, capital had become more mobile and that location did not matter as much as before. However, the work that builds on agglomeration economies (Scott, 2007; Sassen 1991) has shown that cognitive- cultural activities gravitate to particular cities in order to benefit from the pooling of infrastructure, the proximity of suppliers, and a high-skilled labour force. Moreover, various scholars have argued that the diversity of economic activities in cities make them places par excellence of innovation through collaboration, flows of information and the building of business networks (see for instance Granovetter, 1985; Storper, 1997; Currid, 2007; 2010). Knowledge production and exchange as well as creativity are said to benefit from high-density urban environments, where opportunities for social interaction and networking are abundant (Maskell & Lorenzen 2004). Not all cities are equally successful as production sites for the new economy. Literature concerning global cities (Sassen, 2001; Ancien, 2011) emphasizes the unique and central role that financial centres play in the global economy, and illustrates the diverging economic positions of cities around the world by using a Global Cities Index. In addition, Scott (1988, 2000, 2012) and Hall (1997) have researched how the cognitive-cultural economy has been driving changes within the city. Terms like the ‘Post-Industrial city’ (Hall, 1997) and ‘cognitive-cultural city’ (Scott, 2011) signal that changes in the capitalist production system connect intimately with urban form and function.

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One of the main topics of study has been the explanation for, and consequences of, co-location of economic activities and how the exchange of (tacit) knowledge through formal and informal networks relates to business strategy and success. The pivotal role of advanced communication networks and face-to-face contact in successful urban and regional clusters of economic activity has been underlined by several authors (see for instance Maskell & Lorenzen 2004, Storper, 1997; Saxenian, 1994; Piore and Sabel, 1984).

These changes in the capitalist production system and urban economies connect with the economies of residential neighbourhoods in several ways. First, the newly dominant sectors in the cognitive-cultural economy are less nuisance-prone and therefore are easier to accommodate in residential neighbourhoods. Second, the processes of outsourcing and lower barriers to entry have boosted opportunities for SMEs and the self-employed, reflected in a general decrease in terms of the numbers of people employed on average per company (Storey, 1994). Smaller firms are also easier accommodated in residential neighbourhoods where economic activities need to compete for space with residential, infrastructural and leisure-related functions. Third, the smaller business size and customized work practices that characterise cognitive-cultural economic activities allow them to be, at least partially, performed from the home, and this is reflected in the rise of home-based businesses and self-employment in the Netherlands as well as internationally (Mason, Carter, & Tagg, 2011; Mackloet, Schutjens, & Korteweg, 2006). This trend towards being (partly) self-employed is amplified by an increasingly flexible labour market that, on the one hand, allows for combining flexible working hours in wage labour with being an entrepreneur (Sleutjes, 2012), and, on the other, is increasingly predicated on project-based work that attracts independent workers who can mix and match a portfolio of income-generating activities.

Residential neighbourhoods can be conceived of as a type of 'banal' urban space in economic terms (Phelps, 2004). Intuitively, they seem unlikely sites of economic activity because they do not offer the prominent location of a central business district, nor do they offer as much space or the connectivity of industrial estates, or indeed the visibility of a location close to a highway. Yet, residential neighbourhoods have certain advantages. They are often relatively close to, or at least well connected to, city-centres. They offer affordable business space, and are often near a variety of urban amenities. Additionally, running a home-based business might offer additional flexibility in combining work and care tasks. It is therefore interesting to unravel the spatial articulation of a changing economy within the landscape of residential neighbourhoods. As Scott (2012: 142) observes: "... in contrast with the sharp and often incompatible contrasts between production space and residential space that typified much of the urbanisms of the earlier capitalist eras, a

sort of continuity or balance seems now to be spreading over privileged segments of the metropolis where work, shopping, leisure, and residential activities interpenetrate with one another in relatively smooth mutual interdependencies.”

1.3 Changes in urban governance: urban entrepreneurialism

The trends and processes outlined above provide a new impetus to the urban environment as a economic ‘growth machine’ (Logan & Molotch 2007). Public as well as private actors seek to increase the attractiveness of the city as a place of work and investment, leisure and residence. Cities compete for jobs and investments, and they have to do so both on a global and a national scale. In order to stay competitive in a cognitive-cultural economy, many cities try to attract the high-tech sectors, creative industries and financial and business services. Considering that these types of industry rely less on ‘classical’ location factors, cities can no longer solely compete on the traditional means to promote trade and industry such as real-estate management, fiscal policies and infrastructure (Blume 2006). The idea of sculpting and shaping the local business environment relates to the notion of the existence of a strongly localised ‘production milieu’ that cannot be easily moved or duplicated elsewhere (Savitch and Kantor 2002). Cities with varied economic histories and bases try to profile themselves as new sites for cognitive-cultural economic activities. Cities have done this, for instance, by investing in high-profile or ‘flagship’ projects that function as ‘icons,’ as well as by trying to attract the ‘creative class’. (Majoor, 2008; Florida, 2002; Hubbard, 1996). This rather general term, coined by Florida (2002) and widely adopted by urban policy-makers, denotes a class of (independent) professionals in creative occupations who pursue a particular urban lifestyle. Various strategies are adopted to create the ‘entrepreneurial landscapes’ that will attract the sought-after industries of the cognitive-cultural economy (Hubbard, 1996). This development started in the mid-1970s in the United States and somewhat later, in the mid-1980s in the larger cities in the Netherlands. Ideas for large urban planning projects like waterfront redevelopment and reusing brownfield sites were adopted by Dutch policy-makers visiting the United States (van Ruyven et al. 2012). The plans formed the onset of a renewed focus on economic opportunities in cities. Inter-urban competition led to the promotion of ‘good business climates’ on the level of the cities and the city regions (Logan & Molotch, 2007; Peck, Theodore, & Brenner, 2009).

Nowadays, the focus on revitalising urban economies can be discerned in cities that have been dealing with the effects of the aforementioned ‘urban crises’ in the United States and Europe as well as ‘newer’ cities like Zoetermeer in the Netherlands, that are competing for jobs and investments. This development is closely connected to a ‘rolling back’ of the state or what, alternatively, has been

called a transition from urban managerialism to urban entrepreneurialism (Doucet, 2013; Hubbard, 1996; Harvey, 1989) or neoliberal urbanism (Peck et al., 2009). This urban entrepreneurialism takes shape in a situation where cities (and city regions) are increasingly competing for investment flows and relying on the market and the private sector to realise urban growth and development. City governments seek out coalitions with private investors to share responsibilities for local economic development trajectories. Critical observers have noted that city governments are decreasingly an actual provider of public goods and services and increasingly a facilitator in an urban market of land and buildings (Logan & Molotch, 2007; Cochrane, 2007). Controversies about these coalitions and their aims are often framed in terms of questions on the distribution of risks, returns on public investment and the representation of the public good (see for instance Peck et al., 2009; Majoor, 2008). The shift to a reliance on market allocation and competition is legitimised by connecting it to economic growth, and in turn equating economic growth with the public good.

The shift towards urban entrepreneurialism and promoting ‘good business climates’ is also noticeable at the neighbourhood level. Urban policy-makers are responding to statements made by authors like Landry (2000) and Florida (2002) who are advocating creative-city policies and planning interventions in order to foster attractiveness of cities as residential places, especially for highly educated, entrepreneurial, and creative workers. In the view of Florida and Landry, specific types of economic activities and amenities on the neighbourhood and city-level contribute to attracting this creative class. Also, firms and businesses are increasingly being seen as key components in a strategy of ‘revitalising’ run-down or deprived urban neighbourhoods. ‘Problem areas’ in the city are assumed to benefit from an inflow of entrepreneurial activity and new businesses, creating a lively atmosphere and boosting employment. Also, in the longer run, successful businesses are thought to attract other businesses, creating an upward economic spiral (Welter et al., 2008). Top-down planning strategies to improve local business climates can be considered a European trend, as the OECD (2003) reports that many European countries are aiming to revive urban districts by attracting investments in local entrepreneurship and shops as well as by improving the local business climate. In the institutional landscape of the Netherlands, the development towards urban entrepreneurialism coincides with a tradition of area-based policies (Peck et al., 2009). This has led to a development in Dutch urban planning and policy where the neighbourhood economy has become a part of urban economic policy in many cities. In the process of upgrading neighbourhoods, the neighbourhood economy is seen as holding part of the solution. This translates into concrete schemes and programs to improve the business climate in residential areas: policy measures targeting the built environment, neighbourhood business dynamics as well as indi-

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vidual entrepreneurs. As a result, expectations rise with regards to how local shops and businesses can increase the attractiveness of their neighbourhoods as places in which to live and to invest. In the European context, next to the Netherlands, the neighbourhood economy features most prominently on the urban policy agenda in cities in Germany and the UK (see for instance Welter et al., 2008 for Germany, and Syrett & North, 2008 for the UK).

This interplay of economic and political developments explains why many urban economies have been said to be ‘resurging’ since the 1980s. ‘Resurgence’ is used to refer both to the (inner) city as the focal point of new ways of production and consumption, as well as the increased popularity of the city as a place to live for a wide variety of household types (Boterman, Karsten & Musterd, 2012; Storper & Manville, 2006). Compared to earlier decades, the appeal of city living is growing for upper-class and middle-class households, also for families with children (Boterman, 2012). Perhaps ‘creative class’ is not the most suitable term, but a large part of the urban middle class is involved in highly skilled cognitive or cultural labour (Florida, 2002; Butler & Robson 2001, Scott, 2008). Most research on the economic resurgence of the city focuses on inner-city districts or economic clusters of, mainly, creative industries. However, it is worthwhile to investigate how predominantly residential parts of the city are developing in this context of a shift towards a cognitive-cultural economy and urban regimes characterised by urban entrepreneurialism.

1.4 A mixed embeddedness approach to economic processes

The structural conditions of changing economic opportunities, as well as urban regimes that are promoting particular types of urban transformation, are influencing decisions made by entrepreneurs to set up shop, decide on locations and business strategies, and organise their firms. At neighbourhood level, policy schemes and programs are designed to enhance residential environments and influence patterns of entrepreneurship directly and indirectly. In turn, these structural qualities cannot be viewed independently of changing entrepreneurship practices, and how these practices are in turn shaping political and social institutions. This means that economic processes are socially instituted processes, and we need to take a closer look at how they are embedded in society. Before I explain how the mixed embeddedness approach can be utilised in understanding neighbourhood economies, I will briefly outline the theoretical roots of this approach.

1.4.1 Economic actors and social embeddedness

Concerning the context within which entrepreneurial actors operate, approaches have developed that critique the methodologically instrumentalist neo-classical economic approach to entrepreneurship. Focusing on the individual level of the (nascent) entrepreneur, the neo-classical approach conceptualises the starting of a firm as a rational means-to-ends decision (Watson, 2013a). According to this view, economic actors make decisions that return the highest economic value possible and result in the most efficient outcomes. The approach presupposes (and implicitly promotes) a highly atomised individual whose actions and decisions can be modelled in order to predict aggregate economic behaviour. Responding to this school of thought, economic sociologists formulated a critique of the rational-choice approach to economic action by contesting its main assumption about a lone *homo economicus* solely interested in maximum economic utility (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). This resulted in a ‘new institutionalism’ in economic sociology, one of its main premises being that economic action is not necessarily rational or calculated according to neo-classical standards, but results largely from routines and customs (i.e. institutionalised ways of conduct) that are based on a much broader value system than economic values alone (see for a historical overview Stark, 2009). In turn, this new institutionalism was criticised by scholars who said it presented an over-socialised conception of economic actors who were thoughtlessly following institutionalised scripts, presenting an overly deterministic view of economic action (Mingione, 1991). Granovetter’s (1985) well-known critique of both the ‘over-socialised economic actor’ as well as the ‘under-socialised actor’ in neo-classical economics states that if we want to explain economic processes, we should look at the networks of social relations in which actors are embedded. He argues that the neo-classical concept of ‘rational’ decisions is too narrow, leaving out all but purely economic goals attainable in economic transactions. Instead, economic relations are always social relations and economic actors never operate as ‘atomised actors’ (Ibid: 485).

Following Granovetter, further studies on entrepreneurship took an ‘embeddedness approach,’ showing that economic actors do not operate in isolation, but depend on social relations for access to a range of different resources necessary to start a firm as well as information on business opportunities (Granovetter, 1985; Waldinger & Aldrich, 1990; Zukin & DiMaggio, 1990). This approach conceptualises the economic actor as being embedded in a network of social relations with suppliers, customers and organisations (Welter, Trettin, & Neumann, 2008). Although the importance of the social relations of economic actors in explaining economic processes is irrefutable, the implicit danger in this approach is that it remains one-dimensional by focusing on the properties of a network of social

relations, thereby ignoring the importance of market conditions and higher-level institutions. The mixed embeddedness approach offers a solution by making a connection between the micro level of the entrepreneur and the macro level of the context within which (s)he operates.

1.4.2 Mixed embeddedness

The mixed embeddedness approach (Kloosterman, 2010; Kloosterman & Rath, 2001; Rath, 2002; Kloosterman, van der Leun, & Rath, 1999) combines the social, economic, and institutional dimensions that shape entrepreneurial processes. One of the added values of the mixed embeddedness approach is that it connects individual entrepreneurial action to wider structural conditions. Mixed embeddedness, then, is used to study the social embeddedness of economic actors as well as the wider economic and institutional context within which firms operate. It scrutinises prevailing market conditions and institutional contexts, and does not see these as necessarily static conditions. The building blocks of the mixed embeddedness approach thus consist of social embeddedness, market dynamics or economic embeddedness, and regulation and governance or political-institutional embeddedness (Rath, 2003). These building blocks are operationalised below. By applying the mixed embeddedness approach to the study of neighbourhood economies, it is possible to compare neighbourhoods and cities and see how the economic, institutional and social dimensions of the context within which entrepreneurs operate interacts with the spatial dimension of the residential neighbourhood.

Social embeddedness refers to the interdependencies between economic actors. These can consist of exchanges with direct monetary incentives (traded interdependencies), as well as untraded interdependencies that involve unpaid transactions of knowledge and information. However, these are both socially instituted interactions. An often-stated proposition in relation to the emergence of the cognitive-cultural economy is that the fragmentation of production chains intensifies the need for entrepreneurs to engage in face-to-face contacts with other entrepreneurs. This would explain why cognitive-cultural entrepreneurs would prefer to settle in dense urban areas; in order to maintain business-network relations that benefit knowledge production and exchange (Currid, 2007, Maskell & Lorenzen, 2003). It is interesting to see how this plays out in urban residential neighbourhoods, where business presence is less dense and where it seems less conducive of the kind of 'buzz' that is attractive for cognitive-cultural industries (Storper & Venables, 2004). This way of conceptualising the social embeddedness of entrepreneurs stresses relations between individuals or individual firms. It is, however, also possible to look at entrepreneurs as communities. Especially on the relatively small scale of neighbourhoods where a shared space forms an initial

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common ground between economic actors, the collective action of associations of entrepreneurs in shaping this shared space seems important. Following this perspective, groups of entrepreneurs might wish to pool their resources in order to gain benefits for the whole neighbourhood economy.

Market dynamics play an important role in the neighbourhood economy. The restructuring of patterns of production and consumption outlined in section 1.2, as well as the change in the socio-demographic composition of urban residential neighbourhoods, are expected to influence neighbourhood market dynamics. It seems likely that processes such as residential gentrification and the proliferation of family households in urban residential neighbourhoods is accompanying a change in the landscape of shops and firms at neighbourhood level (Zukin, 1997). Also, neighbourhood residents play a role in the supply side of entrepreneurship since they can start a firm themselves from, or close to, their home. The local demand in a neighbourhood is not equally important for all firms; retail and consumer services are more dependent on the clientele of neighbourhood residents than business services. Yet, the socioeconomic and demographic composition of a neighbourhood can be thought to influence the image and attractiveness of a neighbourhood as a business location in several ways. I consider this interplay between the residential composition of neighbourhoods and the supply and demand side of entrepreneurship as characteristic of the neighbourhood economy.

The building block of regulation and governance in the mixed embeddedness approach refers to various forms of regulation and legislation of economic actions on different scale levels (Rath, 2003). Regulation of entrepreneurial actions presents barriers as to what entrepreneurs can (legally) do, while at the same time facilitating them by creating a stable, predictable environment of exchange. On the level of the residential neighbourhood, the Dutch case offers an interesting example of regulation of economic activity. Neighbourhood zoning plans and by-laws form a direct regulatory framework for economic activity. They also represent an institutionalised practice that reveals the struggle between allocating (conflicting) functions to a spatial area. Next to neighbourhood planning practices, a collection of regulations and policies control and stimulate economic activity and entrepreneurship in each neighbourhood. These policy arrangements seem to fit within the rhetoric of creating 'good business climates' (see section 1.3). Related to this, governance of neighbourhood economies has changed considerably since 2007 when the neighbourhood economy became one of the central pillars² in area-based policies designed to combat social and economic problems in urban areas (Meijeren & Ouwehand 2007). The specific policy arrangements that were designed to target neighbourhood economies differ between cities, and are likely

² Next to the pillars of physical restructuring and social transformation.

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to have different local outcomes. Next to these formal institutional arrangements, the aforementioned collectives or associations of entrepreneurs can be thought of as informal ways of governing the neighbourhood economy. These communities of entrepreneurs might develop institutionalised practices that function next to formal rules and regulation.

These three building blocks of the mixed embeddedness approach are emblematic of its perspective on economic (trans)actions: individual entrepreneurs as well as firms do not operate in a vacuum; they are embedded in local networks, shaped by institutions and dependent on local markets. Originally, the mixed embeddedness approach was developed to explain ethnic entrepreneurship. I argue that in a highly fragmented consumer market, with a diverse population of entrepreneurs and firms, as well as an institutional environment that is increasingly responding to differences in local business climates, this approach can be utilised to explain patterns of entrepreneurship and business dynamics in a broader sense.

1.4.3 A pragmatic realist approach to mixed embeddedness

The discussion on the relevance of conceptualising economic actors as social actors in the embeddedness approach implies a distancing from the economist instrumentalist approach to economic processes. The neo-classical economic approach to entrepreneurship for instance, is associated with a methodological instrumentalism that aims at predicting entrepreneurial behaviour and choices through formal modelling. Prediction is the goal. Assumptions that are made in order to make those predictions do not necessarily have to correspond with reality (Caldwell, 1980). These assumptions include free entry to markets, market equilibrium and fully informed, rational economic actors (Engelen, 1995). According to Wainwright this approach ‘confuses predictive success with both causation and explanation’ (2000:3). Another limitation of the neo-classical economic approach to entrepreneurship is that it leads to law-like principles that are stripped from context and only scratch the surface of how the ‘real world works’ (Watson, 2013a).

A pragmatic realist approach to economic phenomena seems more fruitful. The term ‘pragmatic’ refers to the Euro-American pragmatist tradition, which offers a productive way of thinking about social reality away from ‘scientism’ as well as interpretivism. In neo-classical economics, the concern with universal principles, as well as predictive success of formal models, represent elements of scientism. Yet, scientism lacks a concern for context-sensitive explanations of social phenomena, which can also include unobservable entities with ‘generative power,’ such as power asymmetries and social structures (Watson, 2013a; Wainwright, 2000:3; Bhaskar, 1989). Moreover, by effectively eliminating context from its object of

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study, scientism leads to an ‘atomised view of human rationality’ (Yeung, 1997:55). On the other hand, interpretivism can be criticised for an over-emphasis on subjectivism by ‘reducing the social world to the representations that agents have of it’ (Bourdieu, 1989). Likewise, Johnson and Onwuebugzie (2004) criticize the strong relativism of the idea of ‘multiple realities’ advocated by interpretive ‘purists.’ They state that one cannot reduce all empirical observations to individual realities.

Pragmatism tries to solve the dilemma between ‘hard scientism’ and ‘soft interpretivism’ by ‘producing theories of social realities which can inform human social practices’ (Watson, 2013a:23; James, 2008). Taking a realist position implies that theories about social processes, while containing abstractions, should always be empirically grounded. The economists’ instrumentalist assumptions about perfectly transparent markets, full information and rational decision making are helpful in making predictions, but they are not very realistic, they do not correspond to ‘real-world observations’ (Zukin & DiMaggio, 1990). Realism contends that the objective of social science is to explain what goes on in the social world. This world is real and consists of observable phenomena, and so some theories correspond more closely to what goes on in this social world than others. This is not to say that proponents of pragmatic realism seek the ultimate explanatory theory; it allows for critical theory-building by ‘constantly seeking fuller rather than ultimate explanations.’ Pragmatists would argue that knowledge is a marriage between old and new knowledge (Caldwell 1980: 189; James, 2008). The emphasis on empirically grounded theories, and incremental adjustments to those theories, resonates with the tradition of developing middle-range theories.

Pragmatic realism only accepts a moderate form of social constructivism, stating that we do not create reality as we go, through speech acts and meaning attribution, but ‘we come into a social world that has cultures, structures and institutions’ as well as languages, that shape our actions (Watson, 2013a; Wainwright, 2000). As Durkheim (1938) and Berger and Luckmann (1967) contended, these structures and institutions are external to the individual and not necessarily observable, but do impose themselves on the individual and his behaviour. These generative mechanisms constitute observable phenomena, and thus can, and should, be part of our theoretical explanations. Conversely, pragmatic realists contend that shifts in the attribution of subjective meaning and social actions also affect these cultures, structures, institutions and languages, thereby creating space for human agency and the possibility of change. Adopting a pragmatist approach means conceptualising structural elements and agency as forming a dialectic, incorporating possibilities for change (Giddens, 1984). Therefore, this study addresses both the structural elements of the local production milieu that exert an influence on economic actors, as well as how entrepreneurs attribute meaning to those structures

– and practice within them.

1.5 Research area

This study is based on various sources of data coming from five Dutch cities: Amsterdam, Dordrecht, Leiden, Utrecht, and Zoetermeer. These cities participated in an overall research project titled ‘Dynamic neighbourhoods in dynamic urban economies’. The University of Amsterdam, Utrecht University and NICIS³ (now Platform 31) coordinated the research project. Together, the municipalities, NICIS and the two universities formed a research consortium and discussed preliminary findings twice a year. The project resulted in two dissertations (see also Risselada, 2013). The municipal project participants assisted the research by providing access to data and reflecting on provisional results.

All the research cities are located in the west of the Netherlands. These cities are part of the same national context and located in one urban region (The Randstad Region). There is considerable congruency in the cities’ backgrounds and institutional make-ups. At the same time, they differ in size, physical structure, age, economic orientation, and growth rates. The analytical level of this study is that of the neighbourhood, and in each of these five cities a range of different urban milieus is present. The operational definition of the neighbourhood that is used in this research coincides with administrative boundaries as used by municipal and national government. This results in spatial areas with an average size of 4600 neighbourhood residents, ranging from 1000 –10,000 residents. In terms of square kilometres, the researched neighbourhoods range between 0.3 and 2.5 km². The researched neighbourhoods are all ‘purely residential areas,’ and are distinguished from city-centre areas, residential districts with an industrial estate, and purely industrial districts⁴.

Pre-War neighbourhoods⁵, sometimes strongly gentrified, as well as Post-War neighbourhoods, markedly characterised by a separation of functions in space both form part of this study. In each of the five cities, three urban residential districts were selected, in some cases consisting of multiple smaller neighbourhoods⁶.

³ Netherlands Institute for City Innovation Studies

⁴ The categorisation was made on the basis of postal code areas. First, only areas with more than 500 residential addresses were selected. This group was divided into three categories: neighbourhoods with a city centre function, neighbourhoods that have an industrial site within them, and the residue is categorized as “purely” residential neighbourhoods (Raspe et al., 2010).

⁵ Zoetermeer predominantly consists of Post-War neighbourhoods since this municipality (founded in 1935) was designated as an urban growth area for the city of The Hague in 1962 (Municipality of Zoetermeer 2013).

⁶ For reasons of statistical inference, the number of neighbourhoods was expanded for the analyses in chapter two and three.

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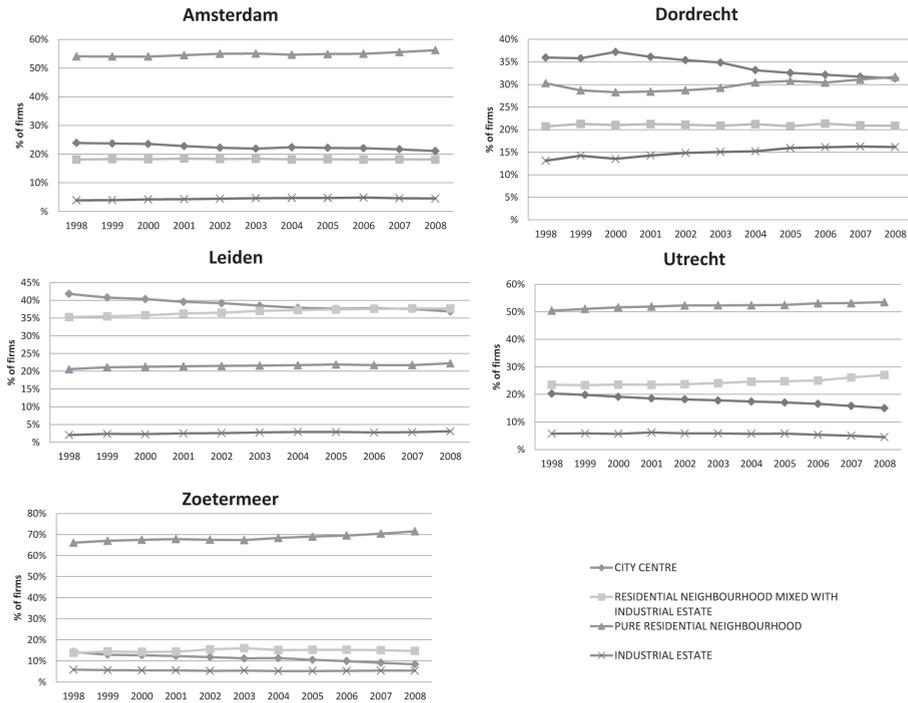
District selection was based on their socio-economic status as well as their involvement in other research projects⁷. In each city a residential district of high, medium, and low socio-economic status was selected. To determine socio-economic status, all the districts of the city were ranked. First, a factor analysis was used to group seven variables indicative of the socioeconomic status of the neighbourhood into two variables. Second, (k-means) cluster analysis was used to rank all the neighbourhoods into the three categories. The socioeconomic status of a neighbourhood implies a specific population composition which plays a role in the presence of local markets, the price range of local business space, as well as the pool of potential local entrepreneurs. The socioeconomic environment of residential neighbourhoods thus functions as the most important comparative dimension in this study. Furthermore, the goal is to grasp the qualitative differences in production milieus that these neighbourhoods represent. Besides the size of neighbourhood economies, this study examines changes in the nature of economic activity and the differences in compositions of neighbourhood economies.

Figure 1 provides some initial information on the share of urban economic activities located in residential neighbourhoods in the five Dutch cities as compared with other urban locations in the period 1998-2008. Public sector activities such as schools and hospitals are excluded from all analyses in this study. The different graphs show that in all five cities, the share of economic activities in residential neighbourhoods is substantial, and on the rise, compared to city centres and industrial estates. In Amsterdam, Utrecht and Zoetermeer, the residential neighbourhoods accommodate a higher share of economic activity compared to the other location types.

⁷ Herewith we tried to avoid areas that had been included in other scientific or municipal studies in the year preceding the start of the research project.

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Figure 1: share of urban economic activity (no. of firms) in different neighbourhood types



Source: LISA data 1998-2008

1.5.1 Data and Methods

With the research design, two main aspects of neighbourhood economies are investigated. Firstly, I examine the patterns of economic activity in urban residential neighbourhoods over the period 1998-2008, and the differences in this economic activity between cities and types of neighbourhoods. Secondly, I explore the institutional, market and social dimensions of economic activities in the spatial context of urban residential neighbourhoods.

To address these two aspects, different types of data and different methods are used. For the first aspect, this study relies on a longitudinal data set (LISA⁸) of company-level data, based on data from the Dutch Chamber of Commerce. The LISA dataset provides information on all the firms located in the five selected cities in the period 1998-2008. A street-level six-digit postal code is available for each firm and, aggregated to the more general four-digit postal code, this allows for detailed analysis at neighbourhood level. The information presented in figure 1 was generated with the LISA dataset. To gain insight into how business settlement patterns have developed in residential neighbourhoods in five different cities over a ten-year period, quantitative methods are being used.

For the second aspect, two different types of data are used. A survey of entrepreneurs in the selected residential districts in the five cities was conducted in 2011. The survey provides detailed data on the characteristics of entrepreneurs covering 370 firms in the five research cities⁹. In addition to this large-scale survey, I conducted 27 in-depth interviews with entrepreneurs and policy-makers in the period January-July 2012¹⁰. The entrepreneurs responding to these in-depth interviews had indicated in the survey that they were willing to be interviewed. Some of the policy-makers and policy actors I interviewed were members of the research consortium within which my research was embedded. Other policy actors were approached through these initial contacts. Qualitative methods such as these are helpful in gaining understanding of the institutional and regulatory environment and changes therein. Also, they are suitable for studying the effectiveness of policy instruments that are designed to create attractive business climates in urban residential neighbourhoods.

⁸ LISA refers to The National Information System of Employment register (Landelijk Informatie Systeem Arbeidsplaatsen)

⁹ A total of 1,683 questionnaires was distributed over 15 residential districts in five cities of which 370 were completed, resulting in a response rate of 23%.

¹⁰ In total 13 entrepreneurs and 14 policy actors were interviewed (11 policy actors working for municipalities, two from housing corporations and one from the Dutch organisation for Small and Medium sized Enterprise – MKB Nederland).

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These three main data sources, the LISA data, the survey data and the interview data, were complemented with neighbourhood and city-level socio-economic and demographic data provided by the municipalities of the five research cities as well as the National Bureau of Statistics (CBS Nederland).

1.5.2 Structure of the book

To answer the main question as formulated earlier, I make use of four sub-questions organized into the subsequent chapters of this book. Each chapter represents an article that is either published in, or under review with, an international peer-reviewed journal. Each sub-question acts as the main research question for its separate chapter of this book. I will shortly outline each sub-question here, as well as the data source and the methods that I use to address these sub-questions.

The first sub-question is addressed in chapter 2 and concerns the institutional and regulatory dimension of economic dynamics in residential neighbourhoods:

Can we identify different types of economic zoning in neighbourhood land-use plans, and if so, which of these zoning types are more suitable and which are less suitable to accommodate local economic activities?

Local rules and regulations on what type of economic activity is allowed where form the legal framework within which firms in residential neighbourhoods operate. The land-use plan is a powerful legal instrument that has always been characterised by rigidity in the Dutch context. More recently, there have been changes in policy discourses on how to design and implement land-use plans. As a consequence, some municipalities have been designing more flexible and less detailed land-use plans. In order to grasp the relationship between economic zoning and the formation of neighbourhood economies, land-use plans of 44 residential neighbourhoods in the five research cities were analysed, and compared to economic developments in the neighbourhoods using LISA data covering the ten-year period of 1998-2007. Both qualitative and quantitative techniques are used to see how adjustments on a regulatory level are connected to business settlement patterns at neighbourhood level. Land-use plans, which allocate functions in spatial areas, are considered as a restraining or facilitating structure that need to be taken into account before other mechanisms that influence the spatial patterns of entrepreneurship are analysed.

The second sub-question is addressed in chapter 3 and concerns the intra-urban geography of different type of firms in residential neighbourhoods:

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What is the relationship between neighbourhood characteristics and entrepreneurship in terms of the level of entrepreneurial activity, growth in activity and type of activity at neighbourhood level?

After considering the relationship between zoning plans and economic activity, this chapter looks at other neighbourhood characteristics that drive the local economy. The main data sources used to answer this question are the LISA dataset containing company-level data of firms in 71 neighbourhoods in the five research cities. Additionally, municipal research centres of the five cities provide neighbourhood-level data on the educational attainment of residents. Other socio-economic indicators of neighbourhoods were obtained from the National Bureau of Statistics (CBS Nederland). In this chapter solely quantitative methods are used to construct an argument for using the classificatory lens of the cognitive-cultural economy to study neighbourhood economies.

The third sub-question is addressed in chapter 4. It zooms in on the organisational strategies used by entrepreneurs in residential neighbourhoods, making a distinction between cognitive-cultural firms and 'traditional' firms:

To what extent do cognitive-cultural economic activities occur in residential neighbourhoods and how does their neighbourhood embeddedness differ from 'traditional' industries?

Whereas chapter 3 is concerned with how the cognitive-cultural economy is distributed within the city, chapter 4 explores the strategies of cognitive-cultural businesses that are settling in residential neighbourhoods. In most scholarly work, cognitive-cultural industries are presented as profiting best from inner-city locations or by clustering in creative districts that offer a particular kind of 'buzz'. Intuitively, residential neighbourhoods do not seem to offer an environment amenable to such industries. In this chapter, the survey data are used to explore the extent to which cognitive-cultural economic activities are located in residential areas. Also explored is whether their embeddedness in social relations and local markets differs from more 'traditional' firms in the same neighbourhoods. The approach of this chapter is quantitative, yet it incorporates elements from the in-depth interviews with entrepreneurs, aimed at arriving at a deeper understanding of the organisational differences that are observed between cognitive-cultural and traditional firms. Company-level characteristics of cognitive-cultural and traditional firms are compared and utilized to explain their economic and social embeddedness in the neighbourhood.

The fourth and final sub-question is addressed in chapter 5. It starts from the idea of urban entrepreneurialism and looks at how local economic revitalisation

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strategies try to create ‘attractive business climates’ in residential neighbourhoods:

How do governmental interventions and the practices of entrepreneurs interact on a neighbourhood level to (re)produce urban commercial spaces?

In this chapter, the institutional arrangements that intervene in the economy of residential neighbourhoods are analysed as well as how they are received by neighbourhood entrepreneurs. I use the extended-case method to examine the qualitative differences between the economies of residential neighbourhoods by integrating the perspectives of both urban policy-makers as well as entrepreneurs. The extended-case method is applied to ‘extract the general from the unique’ (Burawoy, 1998). Every neighbourhood represents a unique production milieu with its own localised conditions of production and consumption. Yet, the analysis aims to identify commonalities in the situated practices of entrepreneurs and policy-makers that occur in Dutch residential neighbourhoods. Data from the 27 interviews with policy-makers and entrepreneurs are used to situate commercial gentrification processes in four residential neighbourhoods. In contrast to the previous chapter, I use the survey data to complement the qualitative interview data that is the main data source of this chapter.

In chapter 6, I summarise the findings from the separate chapters and integrate the different perspectives that were utilised to answer the sub-questions. Chapter 6 also reflects on the mixed embeddedness approach as well as the implications for policy actors concerned with the field of neighbourhood economies, entrepreneurship and urban spatial and economic planning. Finally, directions for future research will be proposed.