1 Introduction

Entrepreneurship is seen as a crucial determinant of economic development. Entrepreneurs recognize and capitalize on opportunities so that a business organization can be created and evolve. The centrality of entrepreneurship in the current economy, or even society, is expressed in scientific and policy discourses as 'the entrepreneurial economy' (Audretsch and Thurik, 2000) and 'the entrepreneurial society' (Ministerie van Economische Zaken, 1999). The ability and willingness of entrepreneurs to take risks and start new companies, coupled with institutions that support entrepreneurship, has sparked economic growth and job creation. But it is not small firms *per se* that are the key; it is the relatively small number of fast-growing gazelles that account for the lion's share of net new jobs in small firms (Birch, 1979; 1987; Kirchhoff, 1994; Storey, 1997). In a quickly changing economy with a premium on innovation, the degree to which the economy is composed of new, rapidly growing firms is said to be indicative of innovative capacity. These firms are started by entrepreneurs who live and work in certain places. The fast-growing gazelles seem to be very unequally spread over space (Mickletwaith, 1997; Stam, 1999). How and where are these firms started, and how do they subsequently evolve? Do they leave their region of origin? What is the role of space and place for these evolving firms? How do networks mediate this role of space and place for the spatial organization of evolving enterprises? These are principal questions addressed in this study. They are derived from the wider debate on the current economy and society centred on three dominant paradoxes presented below.

1.1 Entrepreneurship, space and place: three paradoxes

1.1.1 Non-economic economics

It is increasingly recognized that the economic competitiveness of most advanced economies depends to a large extent on non-economic factors (Van Diest, 1997; Jessop, 2000). This paradox rests on the strong interdependence of economic and non-economic factors in the making of structural competitiveness. This interdependence is reflected in the increasing emphasis given to social capital, trust, and communities of learning as well as to the increased importance of competitiveness based on entrepreneurial cities, enterprise cultures, and enterprising subjects. Learning is a social process based on trust and social capital. The economy and society cannot be seen as distinct subsystems. When entrepreneurship is recognized as the driving force behind economic development, economic as well as non-economic factors have to be taken into account. This also applies for the study of location:

Location is no longer simply cheap factors, but institutional context. Transportation costs is no longer the cost of expedition, but the difficulty in coordinating and innovating at a distance. (Kogut, 2002, p.274)

There is a major contradiction between the sources of short-term and long-term competitiveness. The efficient use of existing competences (exploitation) is required for the survival of firms in the short term, while the development of new competences (exploration) is required to survive in the long term. Non-economic factors are especially important in such a competence perspective (Kogut and Zander, 1992; Dosi et al., 2000a) and exploration is inextricably associated with entrepreneurship.

Insight into these issues of knowledge, learning, and entrepreneurship and ultimately economic development is crucial for the formulation of innovation policy on European, national, local levels and for business organizations. What do these non-economic factors mean for the spatial organization of new fast-growing, entrepreneurial firms?

1.1.2 Local-global in the 'new' economy

The second paradox refers to the dissociation between abstract flows (money, information, communication, commodities) in space and the concrete valorization, development and strategic decision-making in place. The current economy is organized on a global scale, and is said to be increasingly operating in a space rather than a place (Kelly, 1999, p.94). This (cyber) space has different roles for different activities. The most extreme effects of this space can probably be seen in the global finance capital market, in which the 'end of geography' (O'Brien, 1992) or the 'death of distance' (Cairncross, 1997) is declared. The progress in information and communication technologies, trade liberalizations and transport revolutions have given many parts of the economy an enormously high degree of potential mobility. One conclusion sometimes drawn from all this is that economic activities now have a high degree of footlooseness in the sense of locational freedom. But:

It only takes a moment's reflection to see that locational freedom does not mean locational indifference. (Mitchell, 1999, p.76)

Neither does this mean that these activities no longer depend on territorialization:

In the real world, there will always be limits to the mobility of both labour and capital. People are tied by language, culture, family and friends... The mobility of capital, also, is more limited than people think. New capital can be put anywhere, but once it has been turned into a factory, a building, a trained workforce or a distribution network, it is less than perfectly mobile. (The Economist, 1998, p.107)

There is no universal death of distance (as yet), and this new economy does not signal the final transcendence of spatial barriers, but gives rise to "new and more complex articulations of the dynamics of mobility and fixity" (Robins and Gillespie, 1992, p.149). Most activities in global finance

capital, and also the strategic decision-making of the internationalized sectors of the economy, still take place in just a few global cities (Sassen, 1991). For other types of capital (venture capital, for example) the role of territory and proximity is even more important. This territorialization can also be found in specific innovative milieus and industrial districts in the development of many other industrial activities (Castells and Hall, 1994; Mouleart and Sekia, 2003). A striking fact in this respect is that one small region has been the seedbed of the new economy and since then has also been the region which has produced most new fast-growing firms and the highest amount of venture capital in the world: Silicon Valley (Saxenian, 1994; Mickletwaith, 1997).
Knowledge about the effects of this local-global paradox is of interest for policy makers who want to attract relatively footloose investments, or who want to build their own Silicon Valley. For these latter actors, it is important to know how they can create an environment for firms to start up and expand, and how these firms can subsequently be anchored to the region. Are these firms becoming global in reach, but also in location? Or is there a combination of the local and the global: do global actors have to be embedded in local networks (and cultures)? Do firms still have needs and loyalties that keep them anchored in the region? This question leads us to the third paradox, which is not about the new economy, but about the role of place for people living and working in a global space.

1.1.3 People in spaces and places in people

There is a need to be 'at home' in the new and disorientating global space. (Morley and Robins, 1993, p.5)

The third paradox refers to the need for anchors (to a place) to cope with modernity. In the current period of modernity, people increasingly travel around the world and are exposed to foreign cultures. Tastes and lifestyles across nations are becoming more similar, because of the ubiquitous sharing of information and recreation on television, radio, film, and the Internet. These globalizing tendencies transform everyday social life and have profound implications for personal activities. At the same time, personal identity is no longer as obvious as it was in a traditional, locally based society. The modern human being is expected to be flexible and always ready to change work environment, work style, and place of residence when the market so commands (Sennett, 2000). This readiness to adapt might be in conflict with the fundamental human need for stability, trustworthiness, and continuity. Entrepreneurs, just like any other human beings, develop their own personal identities in specific places. It is still open to discussion whether this place identity is fixed or flexible, and whether these entrepreneurs can have portable, or even multiple, place identities. Each entrepreneur has a personal, idiosyncratic, geographically developed identity. But we still do not know how, or to what extent, this place identity affects the (spatial) behaviour of entrepreneurs and their firms in global space. Are they tied to certain places, or are they able to leave whenever they are required to do so to maximize economic value?

These three paradoxes are interrelated and show some overlap. The first two paradoxes concern the new economy, while the third refers to the identity of people in the current period of modernity. The last two paradoxes share a focus on the local-global relationship. All three paradoxes are related to networks: the first to both personal and organizational networks, the second mainly to organizational networks, and the third mainly to personal networks. This substantive attention to relationships is interrelated with the relational turn in such scientific disciplines as human geography, sociology, and entrepreneurship studies (see chapter 2). These three dominant paradoxes in the current economy and society are the inspiration for the subsequent elaboration of questions around the issues of entrepreneurship, space and place: more specifically, the spatial organization of evolving enterprises. This spatial organization was the starting point of the study. Until now, the issues of entrepreneurship, space, place, and their meanings have been taken for granted; of course, they have had to be unpacked in the course of this study.

1.2 Purpose and research approach

The general purpose of this study is *to improve our understanding of the locational evolution of evolving enterprises*. The purpose of this research has not been set out on a *tabula rasa*, since there is a long academic tradition of studies of the spatial organization of enterprises[1]. We have been able to build on the shoulders of the giants preceding us. Nevertheless, a critical overview of theories on the location and the development of new enterprises shows that there is indeed a gap to be filled. This gap concerns a life course approach to the analysis of the spatial organization of evolving enterprises, including the role of networks and the role of the entrepreneur. A comprehensive theory of the spatial organization of evolving enterprises is still lacking. There are theories on the growth of new enterprises, but these have no spatial dimension and do not explain their spatial organization. And there are also theories on multinational enterprises, but these mainly focus on large, well-established enterprises. In addition, there are empirical approaches to the location decisions of small firms, but most of them lack a proper theory. To fill this gap we have made use of existing approaches that had not previously been related to research into the spatial organization of evolving enterprises, but which offered promising applications. However, as explained below, the spatial organization of enterprises as such refers to a *state*, but this state has to be explained by an underlying *process*.

Understanding the locational evolution of evolving enterprises involves the study of entrepreneurship in context. Although empirical and theoretical issues of this kind of research have been discussed quite intensively, there has been remarkably little discussion about meta-theoretical issues. While it is clear that positivism has died a long time ago that does not mean that we have to embrace the postmodern 'anything goes-principle' (cf. Martin and Sunley, 2001). Our study is based on a – post-positivist – constructive realism. This will be discussed together with other meta-theoretical foundations of research on entrepreneurship in context.

To fulfil the purpose of this study a confrontation between theory and particular empirical settings is considered. An empirical inquiry into the impact of networks on the spatial organization of evolving enterprises, which is essentially about entrepreneurial behaviour, needs a research approach that takes into account cognitive, affective, and behavioural elements. These elements have been investigated in empirical research into the spatial organization of evolving enterprises in different institutional and competitive environments, such as mature (shipbuilding, graphics-media), hi-tech manufacturing (biotech), and services (information technology, communication, organization), in different regions (core/urbanized, peripheral/rural) in the Netherlands. This research is based on semi-structured interviews with owner-managers of evolving enterprises and micro firms. In each interview, the life course of the enterprise (from nascent entrepreneurship to the current stage of development) is described, with a concentration on the role of (actors in) the environment for the development of the enterprise. A critical incident analysis was used to identify key points in an enterprise's development seen to be crucial to its successful development.

1.3 Spatial organization and evolving enterprises defined

For the understanding of this study it is important to first define the two central concepts 'spatial organization' and 'evolving enterprises'. Here we will deal with the semantic definitions and the constitutive definition of spatial organization (cf. Van de Ven, 2003). The constitutive definition of evolving enterprises will be dealt with in chapter 4, and the operational definitions of both concepts will be given in the empirical chapters.

The concept **evolving enterprises** refers to enterprises that have gone through the start-up phase and have grown subsequently. That is to say, this study is not just about the existence, or state, of firms. On the contrary: our prime interest is in the genesis, or change, of firms. Firms are not simple objects; they can undergo structural change, turning from a caterpillar into a butterfly (Penrose, 1995).

The concept **spatial organization** is similar to the concepts of location (Håkanson, 1979; Henry, 1992), location decisions (Enright, 1998; Hagström, 1990; Mueller and Morgan, 1962), industrial migration (Romo and Schwartz, 1995), industrial mobility (Katona and Morgan, 1952), location decision-making behaviour (Pred, 1967; Taylor, 1975), spatial behaviour (Golledge and Stimson, 1997), spatial choice (Sheppard, 1980), locational strategy (Porter, 1998a), locational assets (Teece et al., 2000) and spatial structure of business firms (Malmberg, 1996). It involves both the site and the situational characteristics of the location (Broek, 1966). Spatial organization is defined as the spatial configuration of physical resources (of the enterprise). The concept spatial organization that is defined here is *not* similar to the concept of industrial organization or the external organization (e.g. spatial linkages) in space, which is about the industry as a whole or about the external orientation of

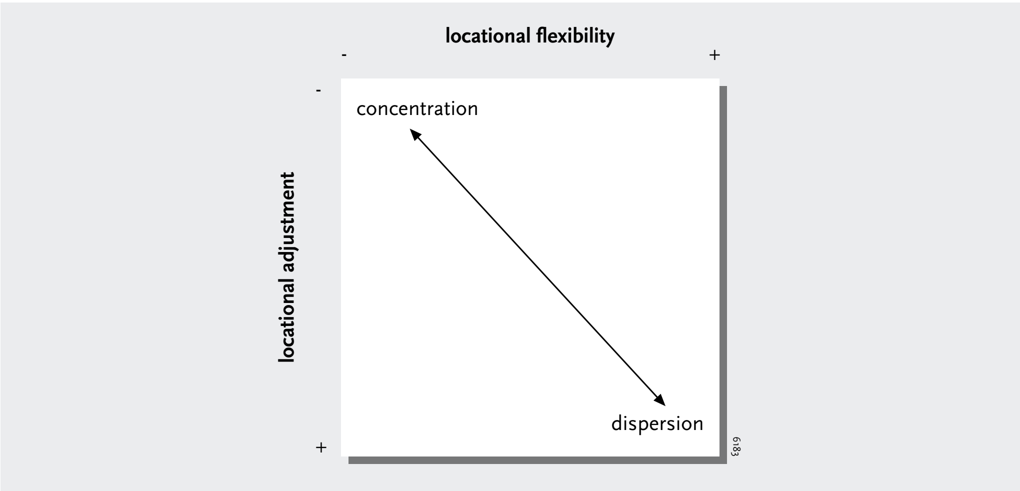

Figure 1.1 – Dynamics of the spatial organization: between locational concentration and dispersion

enterprises respectively. Spatial organization does also not refer to the geography of a population, of for example fast-growing firms (see Lyons, 1995; Stam, 1999; Wheeler, 1990).
The spatial organization of evolving enterprises consists of the dynamic constructs of locational adjustment[2] and locational flexibility, which refer respectively to the adjustment of the spatial organization of evolving enterprises outside the main office (the location at which the entrepreneur/owner-manager executes his activities) of the enterprise and to the realised flexibility of the location of the main office. With these two dimensions the tendency towards concentration or dispersion of the enterprise can be observed (cf. Storper, 1997, p.299-300; Craig and Douglas, 2000). This is shown in figure 1.1.

Three other constructs of spatial organization are used in this study: locational change, locational event, and locational evolution. **Locational change** is defined as a difference in the spatial organization of an enterprise over time. These changes are caused by certain mechanisms. These mechanisms produce actual events: locational events. These **locational events** are specific events that involve a change in the spatial organization of enterprises that can be experienced in empirical research. Examples of locational events in this study are the move of the main office out of the region, or the start of a branch in another region. The sequence of locational events during the life course of enterprises is here defined as **locational evolution**. This locational evolution can be regional, if all locational events take place in the region of origin of the enterprise, but it can also be international when branches outside the home country are started.

1.4 Research problem

Entrepreneurs start firms somewhere, but when they develop their firm its spatial structure often has to change. Relocating a firm can be agonizing and is on the top of the list of stressful events during the life course of enterprises. Locational changes are investment decisions that are often taken under high uncertainty. This stress and uncertainty is especially high when investments are made outside the region in which the enterprise originated. The study of these changes is not only important because of the stress and uncertainty that surround them: these changes can also have long term effects on the development of enterprises. Also the localities and regions in which these enterprises are located affect and are affected by these locational changes. Although we already know a lot about particular pieces of the explanation of the spatial organization of enterprises, we do not have a framework that makes sense of the locational evolution of evolving enterprises. We also know relatively little about the importance of personal and inter-organizational relations in the explanation of the spatial organization of enterprises.

The research problem in this study is:

How and why does the spatial organization of evolving enterprises change during their life course?

The focus of this study is the microlevel of the enterprise as an organization, or governance structure. However, in studying evolving enterprises, the role of the entrepreneur cannot be disregarded. Particularly in the early stages of its development, the enterprise and the entrepreneur are strongly intertwined. In this study, the founder-entrepreneur's business activities and personal (non-business) life is taken into account. The central variable to be explained is the spatial organization of the evolving enterprise, and the dynamics of this during the life course of the enterprise. For the explanation of this we also take into account the network relationships of the entrepreneur and the enterprise with other actors. These network relationships act as enablers for spatial organization, but they also constrain spatial organization. The first research question is:

1. *How and why do young enterprises locate outside their region of origin, and how and to what extent do the personal relations of the entrepreneur and the inter-organizational relations of the enterprise affect these changes in the spatial organization?*

We investigate locational changes that exceed the regional scale (at least 50 kilometres from the initial location). These major changes are probably more important for the stakeholders of the enterprise than changes within the region. If we find that network relations do not affect these major changes, it is unlikely that they are important at all for the explanation of the spatial organization. Next to the inquiry into the role of relationships in the explanation of these changes in the spatial organization other (non-relational) factors on the levels of the entrepreneur, the enterprise and the environment, are also taken into account.

The second research question is aimed at an inquiry of the dynamics of the central 'explanatory variables' related to the enterprise, including the founder-entrepreneur and the networks on the personal and inter-organizational level. Such an inquiry is necessary to understand the changing spatial organization of evolving enterprises. As we still do not clearly understand how firms grow and develop over time (Geroski, 2001, p.354), the following research question is posed:

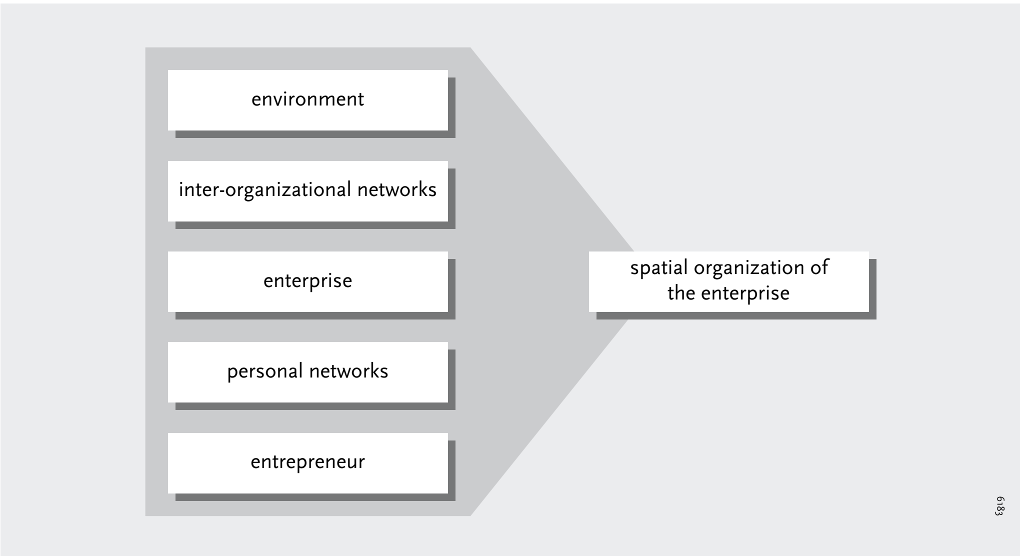

Figure 1.2 – Units of analysis and outcome to be explained

2. *How do evolving enterprises develop and grow during their life course?*

The answers to these two research questions are needed to solve the research problem of this study. The first question focuses on the central variable to be explained – spatial organization – while the second question focuses on the explanatory variables – the changing nature of the research objects.

The units of analysis that are central in the research questions, including the environment in which they are situated are shown in figure 1.2.

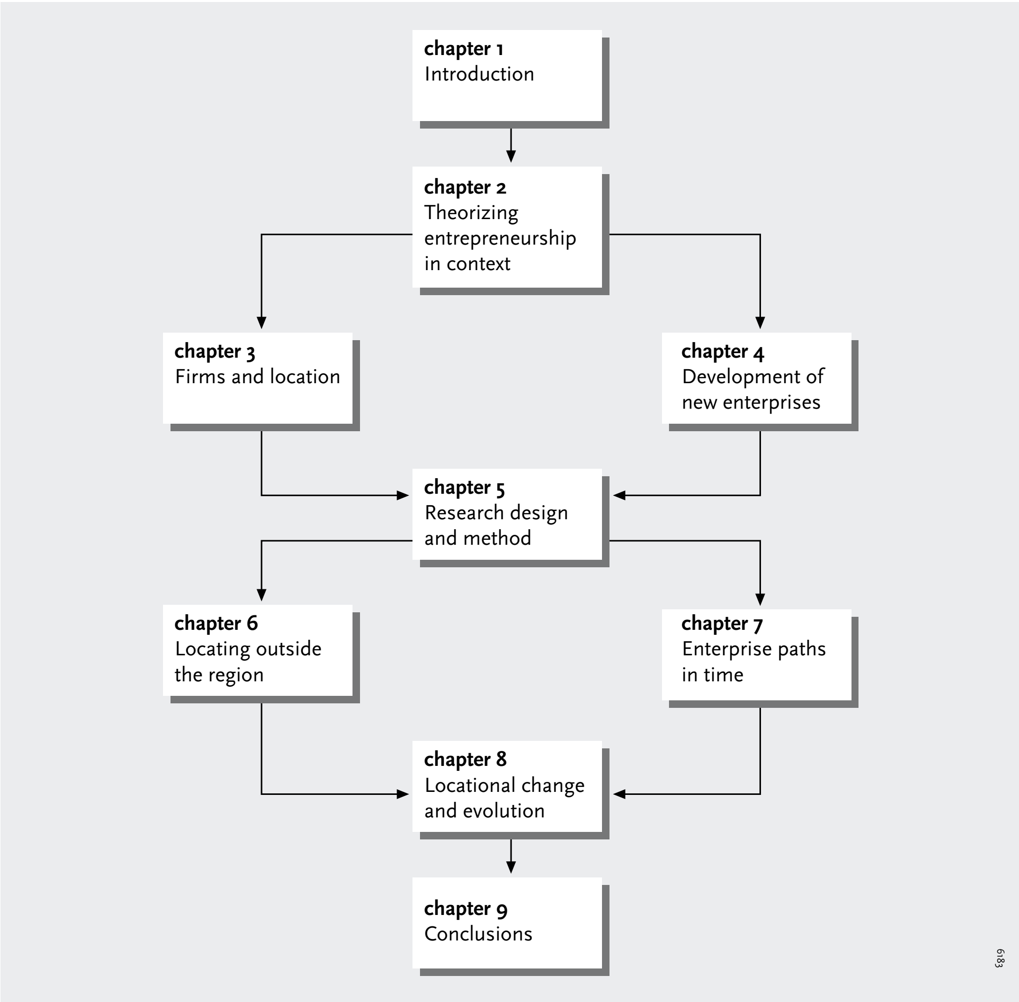

Figure 1.3 – The structure of the study

The figure also shows how an evolving enterprise may be seen as an entity situated between inter-organizational relationships, the entrepreneur and the entrepreneur's personal relationships, and the broader environment.

1.5 Outline

This study is organized into 9 chapters. Figure 1.3 illustrates the structure of the study on the basis of the content of the individual chapters.
In chapter 2 the exploration of the foundations of a contextual approach on entrepreneurship is documented. Chapter 3 contains the elaboration of the theoretical framework on firm location. Four theories on firms and their location are distinguished, and the possible contribution of each to the explanation of the spatial organization of evolving enterprises is discussed. In chapter 4 process theories on the development of (new) enterprises are discussed. A description of the research design and methods follows in chapter 5. Here, the arguments leading to the choices for the empirical work are reviewed. Chapters 6, 7 and 8 contain the empirical part of the study. In chapter 6 there are descriptions, analyses, and interpretations of two types of key locational events of evolving enterprises: moving out of the region, and becoming multiregional. This chapter features the first research question. In chapter 7 the nature of evolving enterprises is more closely examined: their development path, the role of the entrepreneur, and the internal and external organization of these enterprises during their life course. The second research question is centrally featured in this chapter, while the final research problem is explicitly dealt with in chapter 8. This final empirical chapter brings together the insights gained from the former chapters, and documents the study of the spatial organization of evolving enterprises in a life course perspective: locational evolution. Finally, in chapter 9, the confrontation between the theory and the empirical studies is discussed, and the conclusions of the study put forward.

Notes

1 More recently, there is also a well-established tradition in the combination of organization theory and geography (Del Casino et al., 2000; Green, 1992; McDermott and Taylor, 1982; Oinas, 1995; Vaessen, 1993; Yeung, 1998). This study is not only about organizations – here, evolving enterprises; it also gives serious consideration to the entrepreneur and the environment and the contingencies between these three levels. These contingencies also involve the way in which enterprises co-evolve in (selection) environments. There is another well-established tradition in the combination of entrepreneurship and geography (Keeble and Wever, 1986; Mason, 1985; Schutjens and Wever, 2000; Sternberg, 2000); research on the environment is pre-eminently geographic (Camagni, 1991; Lambooy, 1989; Storper, 1997).

2 The term 'locational adjustment' is well-known in the behavioral approach of economic geography, mostly referring to acquisitions of large industrial enterprises (Leigh and North, 1978; Watts, 1980; Healey, 1981)