

Governing Urban Diversity:

Creating Social Cohesion, Social Mobility and Economic Performance in Today's Hyper-diversified Cities

Fieldwork entrepreneurs, Tallinn (Estonia)

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1. Introduction

Economic growth and increasing the well-being of citizens (Fainstein, 2005; Bodaar & Rath, 2005), which are important objectives of urban policies, are closely connected to levels of entrepreneurship and a readiness to create new enterprises. In the global era, cities compete with each other to attract well-performing enterprises and talented entrepreneurs and make efforts to create favourable conditions for new start-ups. The literature emphasises that cities that tolerate diversity are able to attract a wider range of entrepreneurs than those that are socio-culturally relatively closed (Fainstein, 2005; Florida, 2002; Tasan-Kok & Vranken, 2008; Eraydin, Tasan-Kok, & Vranken, 2010). Empirical research on how economic competitiveness is connected to urban diversity, however, is limited and usually provides evidence only at the macro (city or regional) level. One of the aims of this project is to contribute to this emerging field of research with empirical evidence collected at the district level from 14 diverse cities.

In this project report, we focus on the economic performance of enterprises in the diverse neighbourhoods in selected cities and the conditions that support and sustain their competitiveness and long-term development. We aim to clarify the relationships between urban diversity and the success of entrepreneurs. More specifically, we want to explain and document the ways in which some neighbourhoods are able to provide conditions for individuals or groups to strengthen their creative potential and enhance their economic performance.

First, the report examines the entrepreneurs who have started their businesses in diversified neighbourhoods and the factors that define their economic performance. We assume that, although the factors like the ethnic background of the entrepreneur, his/her age, family background, gender, educational profile and previous experience are important variables in determining the success of their enterprises, these factors probably mediate the influence of diversity on the neighbourhood and at the city level. Second, in our report we explore the main motivations of entrepreneurs and assess whether neighbourhood diversity has been important for starting the business in that particular location. Third, we evaluate the market conditions that are important for the economic performance of these entrepreneurs. And fourth, we estimate what the role of policies and measures at different spatial levels is and how institutionalised such policies are.

The evidence for these issues is found via addressing the following research questions, which also constitute the main focus of each chapter of this report:

1. What are the main characteristics of the entrepreneurs and their business? What are the evolutionary paths and the fields of activity? What are the physical conditions and the ownership pattern of their offices/production sites/shops? (Chapter 2).
2. What were the main motivations of entrepreneurs for establishing a business? How important is neighbourhood diversity for starting the business where it is located now? Why did he/she select this line of business and from whom has the entrepreneur received support in different forms in starting this enterprise? (Chapter 3).
3. What are the success and failure factors that influence the economic performance of enterprises? What is the current level of performance and how did it change? To what extent does the diversity of the neighbourhood play a role in economic performance? What are the long-term plans of entrepreneurs? Do they have any plans to change size, market and business strategies in order to reach higher levels of competitiveness? (Chapter 4).

4. Which policies, measures and organisations contribute to the performance of enterprises? What are the contributions of membership to various initiatives on the performance of enterprises? What do the entrepreneurs want from policy makers at different levels? (Chapter 5).

Northern Tallinn is far from being a homogeneous area. Consisting of highly valued residential neighbourhoods¹ on the border of the city centre and covering the area up to the traditional industrial areas, different neighbourhoods in this area exhibit sharp contrasts in terms of their pace of development. Some of the previously deprived areas have been enjoying an intensive construction boom in the past few years, whilst others have been forgotten for several decades. The growing in-migration of creative, wealthy, young Estonians and out-migration of older Russian-speaking industrial workers have shaped the area substantially. Similarly to our previous studies (Leetmaa et al., 2015; Holvandus et al., 2015) we focus on two major groups of local entrepreneurs: long-term residents (generally the Russian-speaking minorities who arrived here during the Soviet period) and in-migrants (gentrifiers—generally young, creative Estonians, students, and young families). The current study focuses on two major contextual factors that have shaped the entrepreneurship profile in the district of Northern Tallinn: first, on the slow retreat of large-scale manufacturing from the area, and second, on the process of creating new physical and relatively cheap space for new contemporary businesses, namely for the booming creative industries.

Closed areas and the retreat of large-scale manufacturing. A large part of Northern Tallinn, especially the industrial section encompassing the majority of the seaside, has long been a deprived district as a result of being a closed and partly even forbidden area for citizens. Today, still, from interview to interview, entrepreneurs refer to some sub-districts as closed ones. Nevertheless, the Tallinn city government plans to open the seaside within the next decade for new enterprises as well as housing projects. This, however, is not a simple process, as people have different views on how to develop public spaces and access to the seaside. For example, the new Kalaranna development² has already created much controversy: the local neighbourhood association stands for high quality public spaces instead of a new business quarter that would close the quarter again to the public. Thus, some of the old and ghost town-like industrial areas have been and continue to be transformed into attractive residential and business environments. That said, the future potential of such soon-to-be-opened areas in the inner city of Tallinn makes our study district attractive for entrepreneurs.

Booming creative industries. Previous studies have shown how often it is the creative class that is the key player in the above-described urban districts (Florida, 2002; Boschma and Fritsch, 2009). Entrepreneurs from the creative industries are highly attracted to non-mainstream and unique places, thus striving towards the richness in social and physical space. In our study, entrepreneurs representing creative industries confirm this case. Our study area does not represent a narrow ethnic diversity context as in many other DIVERCITIES case study cities (Tasan-Kok et al., 2014). Ethnicity and language-

¹ Neighbourhoods in the Northern Tallinn district: Kalamaja, Pelgulinna, Pelguranna, Karjamaa, Kopli, Paljassaare, Sitsi, and Merimetsa.

² The Kalaranna development is a privately led real-estate development near the sea in the vicinity of Seaplane Harbour and near Kalaranna Street, see more: <http://kalaranna.ee/en/>

based diversity intersects with other forms of diversity in Northern Tallinn, with the creative centres being the most important, hyperlocal mini-clusters of entrepreneurship. According to the Estonian Institute of Economic Research (EIER) (2013), the creative industry comprises 3% of the whole Estonian economy. In addition, the number of creative enterprises has grown about 30% since 2007, the total number of enterprises being 7066 (EIER, 2013). When comparing Estonia and Tallinn, 47% of all creative enterprises are registered in Tallinn (Creative Industry in Tallinn, 2009). Therefore, since the economic recession of 2008, creative centres have acquired an important role in urban development (Heebels and van Aalst, 2010). They have co-evolved with the gentrification-led population change, being thus deeply embedded into the local urban environment and political economy (He and Gebhardt, 2014).

This report is based on the 37 interviews conducted with entrepreneurs (+3 with policy experts) in the municipal district of Northern Tallinn from September to December 2015. Our study of entrepreneurs in Northern Tallinn comprises 40 in-depth interviews that were audiotaped and transcribed. On average, interviews lasted about 40 minutes, resulting in 22 hours of audio files and 333 pages of transcriptions. The interviewees were found based on three sampling strategies—convenience, snowball, and purposive sampling:

- We started with convenience sampling by selecting the most accessible subjects based on our personal contacts and contacts gained from previous research phases of the DIVERCITIES project. This type of sampling also allowed us to test and gain feedback over the interviewing process at the very beginning of the study.
- Snowball or chain sampling was used in a majority of the cases—interviewees were asked to signpost further contacts. This allowed us to make effective use of existing social networks that entrepreneurs have in Northern Tallinn.
- Purposive sampling was mostly used at the end of the interviewing process, allowing us to look for entrepreneurs and enterprises with specific characteristics so that we could represent, overall, both key focuses that were set earlier—to cover the enterprises that have moved to rather neglected industrial spaces as well as enterprises that operate within the emerging creative industry centres.

The rest of the report is structured as follows. We start with the description of entrepreneurs and the evolutionary paths of businesses in Chapter 2. Then we provide an overview about the main motivations of entrepreneurs for establishing a business in Chapter 3. Chapter 4 focusses on the success and failure factors of the businesses. Finally, in Chapter 5 we address what kind of policies could enhance the performance of enterprises.

2. The entrepreneurs and their businesses

Acs and Armington (2002) show that the diversity of entrepreneurial activities, diversity among geographically proximate industries, and the extent of human capital all contribute to economic dynamism. At the same time the links between ethnic diversity and economic competitiveness are still undiscovered (Smallbone et al., 2010). In diverse areas, creative economies tend to flourish (Florida, 2002). As Evans (2009, p. 1003) claims, once-declining former industrial districts have already been taken extensively into

use by creative industries that operate as clusters of knowledge and experience economy.³ The same activity is taking place in the district of Northern Tallinn, where creative entrepreneurship is growing rapidly, spatially clustered into a few “hot-spots”.

Studies have described how entrepreneurs engaged in creative industries are often youth-centered and freelance-oriented, but also highly educated individuals (Howkins, 2001; Hartley, 2005; He and Gebhardt, 2014), who aim to produce products and services that reflect ‘a high symbolic and aesthetic content’ (Heebels and Van Aalst, 2010: 347). They tend to seek out an authentic location, a historic and unique urban environment that fits their creative identity (Heebels and Van Aalst, 2010), thus locating themselves in neighbourhoods or houses that “tell a good story”. Creative entrepreneurs and creative centres tend to emerge in the old industrial areas and have a great ability to brand such neighbourhoods (*ibid.*).

This chapter provides an overview of the main characteristics of entrepreneurs and their enterprises in Northern Tallinn. We interviewed 37 local entrepreneurs and 3 local experts who reflected on the overall economic situation in Northern Tallinn. Based on our sample, we start out with portraying the profile of entrepreneurs operating in Northern Tallinn (providing a taxonomy of entrepreneurs). Then we shift focus to the business and activities of the companies and how they have changed over time. Finally, we take interest in information about the sites of the companies.

2.1. Characteristics of the entrepreneurs in Northern Tallinn

The sample is more or less balanced in terms of gender—approximately 40% are male and 60% female entrepreneurs. We have interviewed entrepreneurs from the age of 30 up to over 60, with the average age being 40 and the median 39. Thus, the age distribution is highly symmetrical. Thirty interviews were held in Estonian (including three local expert interviews); five interviews were conducted with Russian-speaking entrepreneurs in Russian; and five interviews were conducted with foreign, mainly English-speaking entrepreneurs in English language.

The background of interviewed entrepreneurs and the narratives about how they have found their way to Northern Tallinn as entrepreneurs follow the evolution of the socio-economic composition of the residents of the district. We know from previous research (Holvandus et al., 2015) that two groups of residents are most distinct in Northern Tallinn: (a) the in-migrants such as gentrifiers, mostly young and middle class, and (b) local long-term residents often performing low-skill jobs and having an industrial worker background. A similar division line surfaces in the interviews with the entrepreneurs with respect to their main field of activities: in-migrants are often involved in creative industries and related services, such as bohemian-style cafeterias or eco-friendly production. The long-term and mainly Russian-speaking entrepreneurs, especially from the Pelguranna and Kopli neighbourhoods, are engaged in more traditional fields of local entrepreneurship, e.g. hairdresser, local bars, machinery repair, cellar shops, etc.

³ The experience economy can be understood as the production, distribution and consumption of experiences-based products and the overall growth of the share of entertainment, edutainment and cultural values in the making and marketing of new consumer products (see further *The Experience Economy* written by Joseph Pine II and James H. Gilmore)

Those entrepreneurs who are native Tallinners have often had some previous connection with Northern Tallinn, e.g. they were born here and lived here during childhood, or they have friends or relatives who live(d) or work(ed) here. About half of the five interviewed Russian-speaking entrepreneurs were born in Tallinn and another half can be considered as first or second generation immigrants from Russia. There are also five new mainly English-speaking entrepreneurs from other EU member states, South America and Australia. In their case, the most common denominator relates to family ties with Estonia, e.g. often they have moved to Tallinn for family-related reasons. It is important to emphasise that the English-speaking entrepreneurs are primarily highly skilled and well-educated professionals. All English-speaking entrepreneurs who have moved to Estonia within the last 10 years have been attracted by the country's quickly-developing real-estate market, Estonia's exotic location, and the culture or by a combination of all factors. The number of foreign English-speaking entrepreneurs is increasing steadily in Northern Tallinn.

The common feature of the interviewed entrepreneurs in Northern Tallinn is that they are, in general, well educated in their field of business and they usually have a university degree or in some cases, uncompleted university education. Even as we consciously aimed for a diverse sample in terms of educational background of the entrepreneurs—involving enterprises whose owners are not necessarily expected to have higher education, e.g. owners of a car repair shop—still, the majority of the owners are well educated. At this point it is interesting to note that while entrepreneurs know their line of business very well, this knowledge comes from previous work experience.

Taxonomy of entrepreneurs

Previous studies have shown how neighbourhoods with a high percentage of immigrants and educated residents are more prone to entrepreneurship (Folmer 2013). Northern Tallinn fulfils both criteria by having the highest degree of gentrification and level of immigrant residents. Studies also point out how a notable proportion of firms operate close to where the entrepreneur lives (Sleutjes et al., 2012). Firms that have been founded near home might benefit from good knowledge of the local customer—due to their informal networks and their own experience as a resident, they know what the local customer wants.

Considering what has been mentioned above, the current study further confirms how entrepreneurs could be categorised by two streams of logic—does the entrepreneur also live in the neighbourhood (local or non-local entrepreneur), and where did the company originally emerge (in creative centres or as external, stand-alone companies)? Although the majority of the enterprises have been founded as spatially stand-alone businesses, especially during the past five years, increasingly more companies are established under the roof of creative centres. From the economic perspective, the latter can be considered as a risk-minimising strategy, because creative centres operate as a safe haven for the businesses located there: the companies gain from the synergy of numerous firms located close by, both in terms of sharing customers and in terms of opportunities for cooperation. Figure 1 summarizes overall patterns within our sample of entrepreneurs.

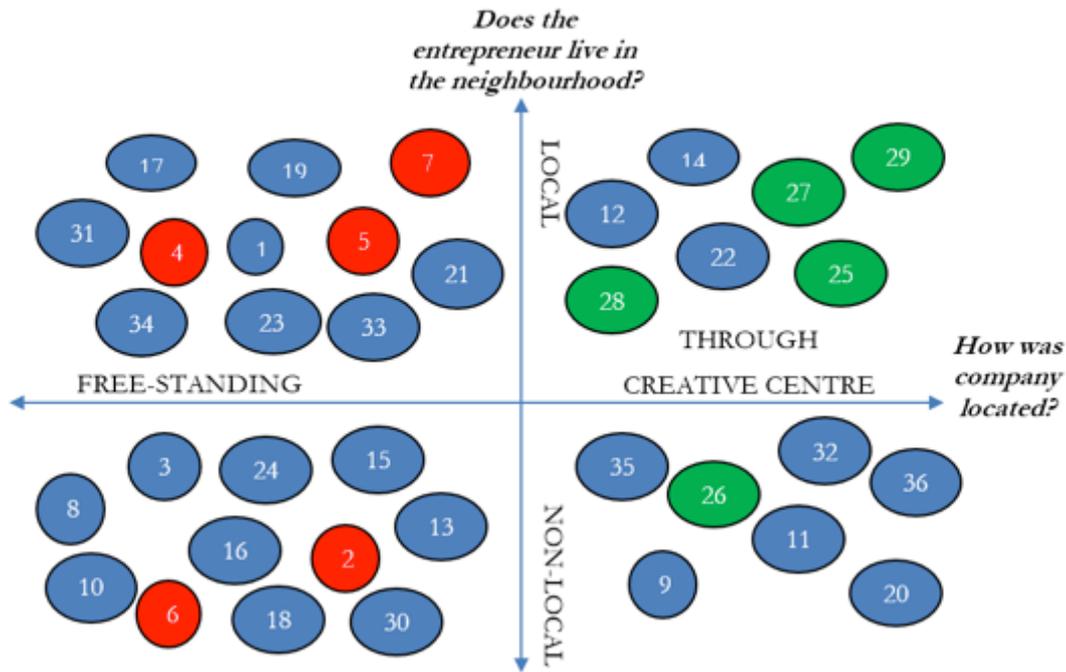


Figure 1. Taxonomy of entrepreneurs.

Notes: ● interviews held in Estonian; ● interviews held in Russian; ● interviews held in English

Local—entrepreneur who also lives in the same neighbourhood where his or her business is located.

Non-local—entrepreneur who does not live in the same neighbourhood where the business is located.

Stand-alone—entrepreneur who did not start the business through a creative centre or similar initiative.

Through creative centre—entrepreneur who started the business through a creative centre or similar initiative.

Do entrepreneurs live in the neighbourhood? Local and non-local entrepreneurs.

Local entrepreneurs are those inhabitants who have been living in the neighbourhood for a long time. In a majority of cases they decided to start a business close to their homes because of the relatively low cost of rooms and the familiar environment. Dahl and Sorenson (2011) have shown that those ventures that are located in the same region where the entrepreneur lives tend to survive the longest, are more profitable and generate higher capital gains. This is mainly related to social capital and local knowledge: local entrepreneurs can make the best use of their local knowledge and connections (Dahl and Sorenson, 2011). For example, their personal experience can better indicate a need for specific products and services that no one offers in the neighbourhood. Some of our informants expressed the same view: “*Actually it was because I could not find where to get good sandwich myself*” (R26, M, 50, English-speaking, food industry, Kalamaja). “*And then at some point I discovered how there is not a single eating place in the neighbourhood where it would be cozy to sit down*” (R31, M, 40, Estonian, restaurant, Kalamaja).

There is another dimension to the situation of some of the local entrepreneurs. Namely, some earlier established businesses were seen as benchmarks for others, giving courage to new entrepreneurs who might have been afraid of the risks when starting a stand-alone business without seeing positive examples. These longer-established entrepreneurs have often been mentioned in media as examples of neighbourhood success stories. Yet the pioneers themselves, when looking back at beginning of their business, wonder how they survived—both economically and emotionally.

Non-local entrepreneurs are entrepreneurs who live in other districts or outside of Tallinn but operate their business in Northern Tallinn. They are often those who are attracted to the milieu of neighbourhoods in Northern Tallinn, whether it is the ongoing boom of creative centres, or the authenticity of existing old industrial and neglected spaces. Keeping an eye on the future potential of the neighbourhood for the success of the business also emerges in the opinions of the foreigners, as they have seen similar developments happening around the world:

“People sometime choose these places that have been neglected, that are different, /.../ If you see this coming, you see that this region is gonna be different. It is gonna change because people will bring another culture.” (R26, M, 50, English-speaking, food industry, Kalamaja)

Those inhabitants who can be considered *as stand-alone entrepreneurs* are those who started their business before the creative centres emerged and are thus located outside of them. They often invested in dilapidated and relatively cheap real estate because they believed in the high potential of the investment. Often, they took high-level risks and faced strong disbelief from others:

“Everybody told me that I am crazy. The majority told me: What? What are you doing? There is, like, no future! What? /.../ You must have gone mad! /.../ No-one will go there. I said that I do believe that people will come. /.../ Before there was pretty much nothing here. I think we kind of opened the path...” (R31, M, 40, Estonian, restaurant, Kalamaja)

How was the company located: through a creative centre or as a stand-alone?

Because of the boom of the creative centres in Northern Tallinn today, there are increasing numbers of entrepreneurs who start to run their businesses because of the transformed physical and social space—because of the attractive milieu. They do not usually experience crime and lack of safety, which might have been a systematic problem for an entrepreneur just 5-10 years ago and still is a problem in many parts of the district outside the creative centres. The advance of such a strategy—starting a business in creative centres—can be witnessed all over the world, one of the well-known examples in Europe being the former industrial neighbourhoods in Berlin (Heebels and Van Aalst, 2010).

The most important factor that shapes the economic success of businesses in Northern Tallinn is location; companies located in and near to creative centres are much more successful than stand-alone businesses. Economically, starting a business in a safe creative centre environment allows for relatively fast growth. However, companies who have become financially sound and accumulate money that can be used for further investment possibilities, at some point, expand or move elsewhere:

“Considering the economical side, it was definitely more profitable to stay there [in the creative city]. /.../ In terms of a stepping stone, you can’t wish for a better place

/. . ./. Right now our advantage is that we have a huge client base.” (R9, F, 38, Estonian, restaurant, Kalamaja)

As addressed by Conklin Frederking (2004), entrepreneurs rely on both formal and informal institutions—formal institutions reflect regulations that are above culture, e.g. legal, political, and economic regulations, whereas informal institutions manifest in culture, norms and ideology. From an economic perspective, according to Williamson (1975), informal institutions may reduce transactional costs. The same argument is used by some interviewees when describing how informal agreement in a creative centre has given direct business advantage.

2.2. Characteristics of the business, its evolutionary path and fields of activity

The study reflects the experience of companies founded between 1991 and 2014. About 15% of the interviewed enterprises were founded before the year 2000, over 30% between 2000-2010, and 47% during an intensive gentrification period of the district, between 2011-2014. Considering how different neighbourhoods in the Northern Tallinn district have faced very sharp differences in their development tracks during the past decades, our sample allows us to provide a rich overview of the developments through the eyes of both established and new companies.

By size, most of the companies are small or micro enterprises (70%). A large part of them are from creative industries (approx. one third), but otherwise we managed to cover enterprises from a relatively wide spectrum of areas. Almost one third of interviewed persons are self-employed and many of them have established the firm alone. Another one third of the businesses are family based and the final one third have been established in cooperation with business partners. Although the majority of companies are small in Northern Tallinn, we were able to reach a few medium-sized as well as one large enterprise with over 4000 employees. Six enterprises out of the 37 interviewed were founded in the 1990s, 13 in the 2000s, and 18 in the last five years.

In our sample of 37 companies, 12 are active in the food industry, mainly in the restaurant-cafeteria-bar businesses. This reflects the recent urban change in Northern Tallinn, where restaurants-cafeterias-bars have increased overall in number. The other businesses are active in the fields of retail, advertising and marketing, IT, and legal advice. More specifically, our sample consists of companies that represent the food industry (e.g. restaurants, a bakery, a farmers market, a winery), the creative industry (e.g. glass design, furniture design, interior design); car repair, outlet stores, pharmacy, IT development, repair shops, theatre, legal aid, and real estate development. Usually the enterprises providing technical products or services, for example, a car repair shop, are older, dating to the 1990s. Those of the creative and food industries tend to be newer. (See Appendix 2 for further details).

In the Kalamaja neighbourhood, it is noticeable that different entrepreneurs want to avoid mainstream business models and try hard to distinguish their enterprise from others, thus again contributing to the diversity of the area. The gentrifiers living in Kalamaja, in particular, are very interested in how the product they buy has been made. There is a demand for the personal touch and diversity on the one hand, and a willingness to supply diverse products and services on the other hand. For example, restaurant owners seek out a speciality and try to find a niche (French food, Asian food, home-made food).

Interestingly, in the Kopli neighbourhood, a few old-fashioned bars still exist that attract clients with their original, traditional industrial milieu, mainly because the owners are also long-term residents. The businesses of long-term residents thus tend to be oriented to the long-term residents, e.g. the Russian-speaking hairdresser works in a panel housing area in Pelgulinna or a Russian-named and themed bar operates in Kopli (a neighbourhood that has not yet experienced intensive gentrification). Many so-called traditional enterprises—fishing and machinery as well as traditional bars, restaurants, electronics repair shops, etc.—often have had to reorient their businesses to new residents as well as their potential clients.

2.3. The information on the site/s of the enterprise

Northern Tallinn consists of diverse neighbourhoods undergoing different phases of gentrification. In Kalamaja, the housing stock is mostly renovated and thus dominated by younger and more affluent gentrifiers. Pelguranna, in contrast, has largely stayed untouched and is still a popular living area for long-term residents. Likewise, Kopli is less gentrified but has been discovered only recently by creative entrepreneurs who have started their businesses there. Pelgulinna could be defined as an in-between place or as a place where long-term residents and in-migrants live and do their business side by side.

Most of the entrepreneurs we interviewed have their businesses either in the Pelgulinna or Kopli neighbourhoods or in the Kalamaja neighbourhood. Florida (2002) states that creative entrepreneurs are mobile since they are price-sensitive and seek out favourable ambience. The same feature seems to apply to creative entrepreneurs interviewed in Northern Tallinn: the growing rent prices often forces an entrepreneur to choose a cheaper location for the business. It became evident that the more price-sensitive entrepreneurs chose a location in neighbourhoods that are cheaper, and a few of them have even relocated there from where they first started. The price level of rental spaces is definitely an issue as almost all the enterprises prefer to rent rooms instead of purchasing real estate. In addition, while some enterprises are scattered throughout the space, e.g. traditional businesses, others tend to be clustered, e.g. creative industries and services for gentrifiers.

We can distinguish several creative centres in Northern Tallinn (Figure 2). Brown areas on the map represent neighbourhoods that have a long-term industrial background. A large part of the industry (e.g. the Baltic Cotton Factory and the Standard Furniture Factory) have closed their operating sites in the district, but some other industrial enterprises are still operating, e.g. companies dealing with shipbuilding and repair; steelwork manufacturing plants; harbours handling coal, timber and oil products; and other similar activities. Yellow circles mark the areas where centres of creative industry can be seen (details about the centres can be found in Appendix 1). Today, the northern part of the district with its many harbours still contains many industrial enterprises, and large parts of the seaside are still closed (except the nature conservation area at the peak of Paljassaare Peninsula). Purple neighbourhoods on the map mostly have a residential character, but many residential units are also located within industrial neighbourhoods.

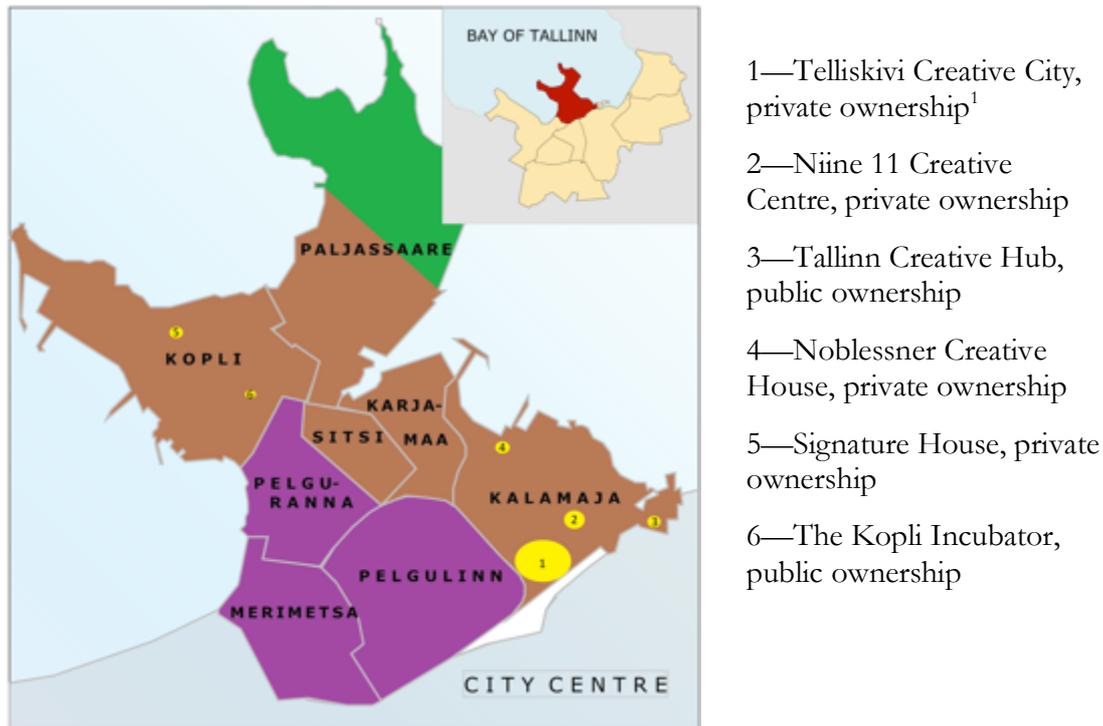


Figure 2. Neighbourhoods of Northern Tallinn by economic background.

2.4. Conclusions

In the Soviet period, the economy of Northern Tallinn was based on large industrial giants such as Volta, Kalinin and others operating mainly in machinery, rail, shipbuilding and electronics production. Some of them were restructured and still function, but after the collapse of Soviet-era industry the economic profile of the district started to change. The typical enterprises in Northern Tallinn today are small, usually with up to three workers. Though entrepreneurs are usually well-educated, their business rarely relates to their education; rather it stems from their previous work experience.

The most flourishing fields of business in Northern Tallinn are restaurant-cafeteria-bar businesses and different forms of creative industries. Clifton (2008) explains that so-called bohemians and people working in cultural occupations (or practicing lifestyle entrepreneurship) enrich the economic scene and increase areas' attractiveness for larger investments as well. Interestingly, although Northern Tallinn is attractive for businesses, we did not find larger and high-tech industry businesses in Northern Tallinn. Most businesses provide simple but personalized services. This might reflect the modest global position of Tallinn in the world economy (cf. Beaverstock et al., 2015), but it may also mean that Northern Tallinn is a good place for starting a business; enterprises that grow may choose another place later on.

The profile of entrepreneurs reflects the profile of the residents of Northern Tallinn (cf. Holvandus et al., 2015). Long-term residents who are mainly Russian speakers are running more traditional businesses such as car repair shops, etc. Newcomers who are mainly Estonian speaking as well as a few foreign English-speaking entrepreneurs are often involved in gentrifier services and creative industries, for example, running "bohemian" cafeterias or dealing with eco-friendly production. The English-speaking

entrepreneurs, usually high-skilled and educated professionals, have often started a business that relates to their homeland culture, finding that some types of services or products are missing in Tallinn.

3. Motivations for starting a business and the role of urban diversity

3.1. Introduction

Armington and Acs (2002) examine the role of human capital and the entrepreneurial environment on new firm formation in U.S. cities and claim that industrial restructuring promotes the creation of new businesses. In older industrial districts a large amount of available vacant office and production space exists that is theoretically affordable for beginner entrepreneurs and is especially inspirational for creative entrepreneurs who search for a more exciting business environment (Clifton, 2008). These new entrepreneurs enrich the local economy, and during the transition phase from a traditional to service-based economy, the co-existence of older enterprises (in the case of Tallinn, the fishing and machinery industries) with newcomers raises the diversity in the local economy.

The second macro-factor that favours new entrepreneurial activities and feeds a diverse economy is ongoing population change. The in-migrants are often more motivated to start a business compared to long-term residents with an industrial background. The population growth alone is positively related to new firm start-ups (Armington and Acs, 2002) because the inflowing population is mostly younger, wealthier, better educated and more active in economic terms. The population change supports the restructuring of the local economy as well because the in-migrants are engaged in types of economic activities different from those that long-term residents are engaged in. Furthermore, long-term residents with a background in industrial work often do not have the respective skills, social networks, institutional knowledge and professionalism to start new businesses, especially in the sectors that are in demand (e.g. service activities) on the one hand, but unfamiliar to them on the other hand.

In both cases—long-term residents and in-migrants—social networks are especially important in starting businesses because they provide advice, knowledge and information to start-ups, and sometimes access to financing, social legitimacy, reputation and credibility (Klyver et al., 2008: 332). A specific social capital emerges out of these social networks and provides motivations for starting a self-owned business selecting its line of activities for the firm (Klyver et al., 2008). For example, Saxenian (2009) demonstrates the importance of the ethnic networks of highly skilled Asian immigrants in Silicon Valley in contributing to the growth of the local economy. We can also observe Estonian, English and Russian language-based networking and communication among entrepreneurs.

In the following sections we aim to shed light on the specific motivations of the entrepreneurs for starting their business in the diverse and dynamic urban environment of Northern Tallinn. We will address the following questions:

1. What were the motivations for establishing the enterprise?
2. Was the diversity of the neighbourhood an important factor for starting a business or moving the business to the present neighbourhood?

The following chapter opens with an analysis of local entrepreneurs' motivations for establishing a business as such. We dig deeper to find out why the activities were located specifically in Northern Tallinn and not elsewhere. We are also interested in how the interviewees selected the type of business and how they received information, support and seed capital for their company.

3.2. Motivations for establishing a business

Three different groups of motivations emerge from the interviews: the next step in one's career, searching for *carte blanche*, and continuing a tradition. The division line in defining these motivations runs between a contrast of progression and inevitability. The progressive-minded entrepreneurs want to take the next step in their career and/or are looking for independence. Contrary to that, the business may be a final opportunity or expresses a willingness to continue with activities undertaken by people who have, for some reason, not been able to continue with their former employer. A difficult economic situation during the crisis years⁴ has sometimes been the main trigger of small shops, bars, restaurants, TV repair places, etc. regularly changing ownership from one entrepreneur to the other. Many of the previous wageworkers left without work decided to start their own businesses at that time.

The next step in one's career

Some of our interviewees decided to start their enterprises after having worked in the same place for 6-7 or more years. They have had time to develop their business idea and also have sufficient knowledge, expertise, self-confidence and belief in the success in these sectors:

"I studied finance in London. One thing what I've learned in Estonia is that Indian food has got two extremes—you have got cheap Indian food in shopping malls—low end, low quality products. Or you have very high-end places for rich people. Middle class Estonians do not go frequently to the latter places, maybe just once a year, because it is too expensive for them. I wanted to provide something in the middle. To try to deliver good quality Indian food with affordable price that regular customers, families, can enjoy at least couple of times per month. This was my original idea." (R28, M, 39, English-speaking, restaurant business, Kalamaja)

Sometimes people just want to face new challenges in their career. This is especially typical for young mothers for whom maternity leave serves as a natural break in their career and provides a reason to reorganize their work-related ambitions. Several examples illustrated how young mothers (in some cases even high-skilled professionals) undertook hobbies during their leave and instead of returning decided to start their own company. The motivations for starting an enterprise is described as *"enjoyable to manage on your own when you do that wholehearted and with giving 150 percent"* or *"I decided to exert myself for my own business than for someone else's business"* (R14, F, 39, Estonian-speaking, retail and professional training, Kopli).

Searching for *carte blanche*

⁴ Economic crisis in 2008-2010

The second range of explanations for why an individual would start their own business is a desire for self-sufficiency or entrepreneurial independence. We use the metaphor *carte blanche* to refer to the freedom in decision-making when you are your own boss and have the creative freedom to offer the services and products in your own artistic way, independent of what others do:

“In hard times I would prefer to be a wage worker, but even then I wouldn’t be completely independent of others. Nobody is immune, but I can say that this kind of personal freedom you get only while working as a private entrepreneur in the sense that you can do what you want. I’ll go where I want and when I want. I don’t have to report to anybody!” (R30, M, 46, Estonian-speaking, sewing company, Kopli)

We have numerous cases when the enterprise was begun in order to undertake a desired activity in a field close to one’s heart. In these cases the interviewees mention some kind of loss in their income but satisfaction in dealing with a cherished line of business. The typical explanation is that *“I was doing a well-paid job, but I was unhappy because I wanted to do something else”* (R29, M, 35, English-speaking, comedy theatre enthusiast, Kalamaja). Such choices are more common to lifestyle entrepreneurs who have chosen a creative field for their business. As will be discussed in the following chapters, lifestyle entrepreneurs desire entrepreneurial freedom and the implementation of personal ideas that outweighs the possible decrease in income. They also define success through non-monetary values.

Continuing a tradition

Some entrepreneurs are long-term residents of the district and long-term workers in some traditional sectors. After their employer experienced financial difficulties, these former wageworkers wanted to continue with the same activity in the same neighbourhood, and the best or even only option for doing so was to start their own business:

“I’ve worked here for 17 years. That was the only reason I agreed to take this firm over. Besides the main chef job, I also worked as a receptionist and cleaning lady. The owner had hard times and she was already retired. She didn’t have the energy to run this place and the business began to crash. I saw that things needed to be changed and we decided to agree that she gives us time to heal wounds and develop the business. We signed a contract for three years. During what time I will invest into the place and don’t have to pay her.” (R7, F, 53, Russian-speaking, billiard club, Kopli)

Likewise, few interviewees claimed that after their studies, the situation of not finding a suitable job led them to the decision to start an enterprise. Some entrepreneurs who started their activities in the early 1990s, immediately after the country regained its independence, belong to this group, too. The main explanation is that there were too few employers at that time and somebody had to take the responsibility to offer jobs. Additionally, they benefited from the lack of new services or products after the system change. Of course, not all of the start-ups from that time have survived.

The three prevailing motivations follow the nature of the dual population structure of the residential history in Northern Tallinn. It must be acknowledged that long-term residents commonly do not have the resources and ambition to undertake entrepreneurship, but we did find some examples. The fact also reflects the situation of the neighbourhood transitioning to a service-based economy that leads to the extinction of traditional

enterprises. Finally, it is important to state that all these motivations are personal rather than associated with the local social composition and the physical appearance of the neighbourhood. Entrepreneurs do not consider the neighbourhood's characteristics, such as local diversity, when choosing to start their own business. They want to improve their own position both in monetary and non-monetary terms.

3.3. Why he/she started his/her enterprise in the place where it is located now? The importance of diversity

We can distinguish two groups of reasons why the area has been chosen as the location for the company. They are associated with different phases of gentrification, but most of all represent different manifestations of (physical and social) diversity in the district: in places where the gentrification process has remarkably changed the local population's composition, the factors sought after are the treasured creative milieu and existing entrepreneurship capital. This is a cherished area for gentrifiers and milieu seekers. The other reason can be linked with the development of the enterprise and with the search for affordable rental spaces. We assume that many enterprises that seek affordable locations have made their locational plans for a only short term—after having enjoyed some economic success, they might consider moving on to other districts. Of course, as the overall business environment changes rapidly, these decisions might also be subject to change. Decisions that are based on cheap real estate and rental prices are more characteristic to long-term residents and pioneers.

The Kopli and Pelgulinna neighbourhoods

Northern Tallinn is experiencing economic restructuring from an industrial to service-based economy in the direction from the city centre towards the urban periphery—neighbourhoods closer to the city centre are gentrifying faster than the more distant ones. Neighbourhoods like Kopli and Pelgulinna (somewhat more distant from the centre) are currently being discovered by pioneers who see the potential for establishing an enterprise there. The pioneers are motivated by the profitability of investing in dilapidated and relatively cheap real estate; the affordable price is the most crucial motivator here. Kopli and Pelgulinna are now rapidly changing, being recognized as the top destinations for new residents and businesses. In Kalamaja, the same process resulted in a remarkable rise in real estate prices.

The second aspect that matters in the search for location is vacant commercial space. After the local big electronics and mechanics industries restructured or relocated away from the district, many commercial spaces have become available. As an interviewee stated, *“I think that the availability of vacant space here influenced the finding of the location”* (R3, F, 53, Estonian-speaking, event management, Kalamaja).

To offer another example, as mentioned at the beginning of the report, the majority of the neighbourhoods in Northern Tallinn are former industrial areas looking for new functionality and identity. This kind of industrial background seems to be economically beneficial to newly opened production companies—bakeries, sculpture studios, glass production workshops, etc.—that require significant energy and special rooms for their production. In that sense, Northern Tallinn provides relatively good technical infrastructure:

“We were looking around Tallinn for what was possible to do. In fact, it was clear that there doesn't exist such space that is situated on the first floor, where there are windows, is accessible to people, so to say on their path or within walking distance,

with unlimited electrical power and venting options. We didn't find such a place elsewhere.” (R20, M, 46, Estonian-speaking, bakery, Kalamaja)

The interviewees usually do not think about the urban diversity in Northern Tallinn as such when they decide to locate their businesses here. Of course the security issues and reputation have probably been considered, but these entrepreneurs who already have chosen a location in Northern Tallinn do not reveal that they took into account the local social conditions. They first mention the proximity to the city centre, and the importance of being close and accessible for clients coming from other parts of the city. About half of the entrepreneurs we interviewed, mainly those from outside of Kalamaja and the creative centres, do not talk about place attachment nor do they see local residents as a major target group for their products and services. This is the main reason why they are interested in good transport connections and proximity to the city centre:

“I think that the local diversity doesn't play any role. The most important factor is the location and proximity to transportation routes. We have a bus stop just across the road. It is easy for the visitor—(s)he comes with public transport, straight upstairs and (s)he's here! It is also easy to explain how to come.” (R4, F, 42, Russian-speaking, hairdresser, Kopli)

The low place attachment may come from the fact that in Northern Tallinn few enterprises have been operating at the same place for a long time. The link between the place and the enterprise is therefore often weak. The exceptions are the interviewees who have long operated at their current location in Kopli:

“I've been working here for so long, many of my clients have grown up during these years. These boys who play outside at the moment, I have known them since they were small kids. They always have eaten here. I know them well. I'm not saying that doing the business here is easy for me, but it's not so difficult. They help me. We have a lot of bums and drug addicts hanging around here.” (R7, F, 53, Russian-speaking, billiard club, Kopli)

The Kopli neighbourhood is not attractive for several reasons, such as insecurity, local social problems and the lack of physical infrastructure. The main reasons for businesses to be located there, however, are the low real estate prices, the relative proximity to the city centre compared to other districts of Tallinn and the place attachment of those entrepreneurs who have been here longer.

The Kalamaja neighbourhood and the creative centres⁵

The exception among other neighbourhoods of the Northern Tallinn district is the Kalamaja neighbourhood where the desired ambience that attracts entrepreneurs already exists. The crucial factors for locating a business in Kalamaja are also related to the abundant client base due to successful creative centres. The enterprises that are located in creative centres enjoy the concentration of creative enterprises in their immediate vicinity and emphasize the importance of local cooperation networks:

⁵ Two of 5 creative centres are not situated in the Kalamaja neighbourhood, but due to the similar context (characteristics of renters, owners, ideas and visions of the centre) we include them with centres located in the Kalamaja neighbourhood.

“I came here because of the concept of the house [The Signature House], which I really like. All the people here are so creative! Everyone does their work in their studios, but sometimes different cool ideas arise that will be realised together. We organise different events together, like, from that floor we can have a photographer, and from another part of the house we can find an emcee. Somebody designs invitation letters, someone will paint something and so on. Such synergy is very important. Being alone in some classy Old Town lounge is not what I want.” (R11, F, 41, Estonian-speaking, vintage furniture, Kopli)

The richness of local activities (services, products) within the creative centre is important in the sense that the local entrepreneurs benefit from the larger client base. As an interviewee stated, *“it is important that the activities are diverse and the neighbourhood is active,”* (R2, M, 60, Russian-speaking, rent and repair of electrical equipment, Kopli). It is important to mention that the interviewees do not link the richness of local activities and the client base to local ethnic diversity. Rather, they see it as more efficient to be where other firms are also present and the client base is sufficiently large. The exception is the pioneers, which have chosen areas where the client base, infrastructure and other enterprises are missing, but where they see a great potential for earning profit:

“Well, I came here five years ago and it was a complete construction site, basically ruins. I came here and it was very interesting concept of what is going on here, because it was nothing else. And then it started in my head, I always had this thing, I like to predict that something will grow or not, area like that. I had this feeling inside that this is the future growth area. I've been in places like this in Berlin, which looked very similar to this 10 years ago.” (R28, M, 36, English-speaking, restaurant owner, Kalamaja)

In the later development stages of the Kalamaja neighbourhood the positive feedback and success stories influence the location choice of new entrepreneurs—when seeing the success of creative centres, other entrepreneurs want to put their own ideas into practice as well and to enjoy the profitability that comes from such an agglomeration effect or from the benefits of similar firms located close by. The main arguments for locating in Kalamaja and creative centres are no longer cheaper rents, but the many location-related advantages such as the proximity to the sea and the port, the presence of tourists, existing entrepreneurship capital, etc.

With respect to the ethno-lingual diversity, the Kalamaja neighbourhood seems to have developed to an area where differences among people are more tolerated. The Telliskivi Creative City has the pioneering role of having more foreign English-speaking entrepreneurs than other places in the district. There is noticeable cooperation between entrepreneurs with various ethnic backgrounds. An interviewee with a foreign background also revealed an interesting observation that the diversity of people has led to a diversity of ideas, which makes the place interesting and tolerant:

“I like it here actually because of the diversity aspect, probably people over here are more accepting towards diverse ideas and diverse people than everywhere else in Estonia I would say.” (R28, M, 36, English-speaking, restaurant owner, Kalamaja)

We may conclude that although diversity matters, other important factors shape the entrepreneurs' decisions to locate where they do. An affordable location is very important, especially in beginning one's entrepreneurial career. The reasons to start the business in a less gentrified areas are low real estate prices, proximity to the city centre,

and place attachment in the case of long-term residents. At the same time, gentrified areas like Kalamaja and creative centres attract entrepreneurs with existing entrepreneurship capital, synergy and cooperation. Creative centres are designed to be diverse in different activities:⁶ the range of tenants is chosen to cover different products and services and even different ethno-lingual backgrounds. The richness of activities is seen as a precondition for a diverse client base that promises to lead to more clientele. As the creative centres are described by our interviewees as more tolerant places and are designed to maintain a diverse range of different entrepreneurs/tenants, the diversity comes into the play as a reason to enlarge the client base and encourage the creative entrepreneurs with cooperation possibilities.

3.4. Selecting the line of business

In this section we analyse how entrepreneurs have selected their line of business. We identified the three most frequent stories for how the decision was made. The prevailing scenario is of career development, and in such cases the business was begun after the individual was active in the same field, as a waged worker. Secondly, the more economically independent entrepreneurs—often female entrepreneurs—have chosen a line of business based on a personal hobby. And finally, some entrepreneurs have started an enterprise to fill an empty niche. Diversity matters the most in the case of the third strategy.

A next career step within the same field of activity

The interview data supports the fact that many careers as a private entrepreneur have been started after the individual worked in the same field. The main arguments here are “*This is the field where I am professional*” (R1, F, 36, Estonian-speaking, interior architecture, Kalamaja) or “*We did not invent anything new—we continued with the activities we were familiar with*” (R2, M, 60, Russian-speaking, electronics repair, Kopli). In these cases the already existing contacts, knowledge and skills favour the choice to continue with an independent business:

“So, I said yes, let’s make an English bar. I have contacts in England, all this English beers which I brought in. My job in England was to teach people how to run good pubs. I think actually I know what I am doing. Let’s do it.” (R25, M, 36, English-speaking, bar, Kalamaja)

Business ideas are often developed when the individual still works in previous job. The frequent pattern is to begin a firm with a colleague or someone who also knows the field:

“At one point the question came in my mind whether I already have enough experiences and knowledge to operate on my own in the same field or not—not to be employed by some large company, but do my own business. I think that the partnership with another person is very important, because alone I wouldn’t ever do that.” (R44, F, 44, Estonian-speaking, public relations, Kopli)

Personal hobby that grows into a main activity

⁶ Creative centres are privately led, often single building-based business projects. Usually the owners choose the tenants for certain criteria (e.g. being associated with creative activities, well-suited to other tenants) and the aim is create as diverse a range of tenants as possible as regards their activities.

We briefly introduced in previous sections the situation where a break in work triggers young mothers to enter the business world. This moment in their life course makes some people try something new, usually hobby related, that later may grow into their main field of paid activity:

“For many years I was an editor of a magazine. Then I stayed home with the children, and when we started to build and thereafter to furnish our house, I discovered furniture restoration. Later it grew bigger and bigger until it became my business.” (R12, F, 37, Estonian-speaking, vintage furniture, Kalamaja)

Many of these entrepreneurs say that the support of close friends and family has been crucial. Interestingly, the explanation that a hobby is the main activity is mostly used by female interviewees. Only one male interviewee explained that cars and motors is his hobby and this is why he made a decision to deal with car repair. This phenomenon may occur because women opting for hobby-related businesses tend to enjoy a better economic situation and can afford making a compromise between income and preferred activities that are often not as profitable, at least initially.

Identifying the niche

The third section describes entrepreneurs who identified a niche and decided to start an enterprise in a field they have never before engaged in. The interviewed English-speaking entrepreneurs have often used a brand from the country of origin, e.g. English beers, Italian wines or a certain country’s cuisine, which in their opinion has the potential to sell in Estonia:

“My background and my experience to work is mostly in finance. Actually I started because I could not find myself where to get a good sandwich. /.../ People needed to have a place to buy sandwiches.” (R26, M, 50, English-speaking, food industry, Kalamaja)

The niche is sometimes discovered from the local experience by living or working in the local area. There might be a connection to the diversity and a more tolerant local milieu in the Kalamaja neighbourhood because the creative centres offer the opportunity for creative entrepreneurs to start the firm in a safe environment surrounded by other creative businesses. In this case the attitude that the safe entrepreneurship climate and existing entrepreneurship capital will help to start the firm is mentioned by a few entrepreneurs who have started in creative centres. Two entrepreneurs also stated that they agreed to risk more with establishing a firm in an unknown field because the existing client base of the creative centre where they are located helps with risk management. In less gentrified areas, locally in-demand but nevertheless absent services may also inspire a line of business. In this case, when stand-alone entrepreneurs explore an undiscovered area, their selection of a line of business is influenced by the hidden needs of the local people. These needs are often more specific than what mainstream producers and service providers are able provide, reflecting most explicitly the diverse needs of the local inhabitants. Many restaurants, small grocery stores, coffee shops, etc. have been established because of the existence of such demand. In the Kalamaja neighbourhood in particular we can find gentrifier-oriented niche and eco-shops, while in Kopli more mainstream and inexpensive services can be found.

To conclude, new firm formation follows the logic that people usually start a business when they are convinced they can manage on their own. Therefore, start-ups are created mostly by experienced people in a secure financial situation. If the selection process of

the business line depends mostly on personal factors, the neighbourhood matters in only in the third type of explanation: when the entrepreneur has discovered a local niche.

3.5. Information, support and capital formation

The interview data indicating that mainly small and medium-size enterprises are active in Northern Tallinn reveals that the entrepreneurs are extremely independent. They prefer to collect information on their own and use their own finances, and they do not use state and local government subsidies that would facilitate their businesses. Sometimes, they team up with others in order to secure enough funding for the company from personal networks:

“At the moment of creating the company, good colleagues played a great role when I was leaving my employer. Today I own the company alone, because I bought them out, but I would have not been able to start alone during the transition period between my employment and entrepreneurship. /.../ Without co-partners it is not possible to start the business.” (R8 M, 34, Estonian-speaking, real estate development, Kalamaja)

During the first years, in many cases capital is thus received through close personal networks: friends, family and relatives. Even if a bank loan is used, close relationships play an important role by providing either financial or mental support. Enterprises located at creative centres benefit from such network-based cooperation opportunities the most: being close to other experienced entrepreneurs helps in dealing with the first difficulties that occur. A female creative entrepreneur from one of the creative centres explains the advantages of being near other entrepreneurs in the creative campus by mainly emphasising their supportive role:

“The ambience here in Telliskivi Creative City is more intimate. I am interested in these intimate relations between people. It is wonderful if you have contact with, for example a photographer with whom you don’t have any kind of legal relationship, but you take him as a colleague. That’s good!” (R22, F, 32, Estonian-speaking, creative artist, Kopli)

Closer cooperation also takes place within creative centres and often within the same field of business. Furthermore, English-speaking entrepreneurs help each other in solving small daily problems and issues. The following quote illustrates the non-competitive and supportive milieu among the restaurant owners in Telliskivi Creative City:

“A guy who owns the restaurant the next door is a friend of mine. If they run out of beer they come to borrow some. If I run out of gas or the ice machine is broken, I go to another restaurant in the distance to borrow some ice. Among businesses here we have a nice non-competitive milieu. I was just thinking that I could invite once a month all bar owners to a room and we could talk about our problems and opportunities, about how we can work together, like a local organisation of bar owners. It is much easier if we all help each other and do not fight against each other.” (R22, F, 32, Estonian-speaking, bar owner, Kopli)

To conclude, the interviewed entrepreneurs are extremely independent as they prefer not to use external support both in financial terms or for gathering information. Tighter cooperation emerges in creative centres and in circumstances where close relationships

with other entrepreneurs develop, which tend to displace the lone nature of Estonian small enterprises.

3.6. Conclusions

Creating new enterprises in the Northern Tallinn district is boosted by the economic restructuring and dynamism that unfolds here. Although the range of explanations provided for starting a business is wide, four motivations prevail. The first is the desire to bring change to one's career. People who fall into this group have adequate starting capital and a business idea. Their knowledge has been attained by prior work experience and being active in finance or other fields that offer skills necessary to run a company. The second type of entrepreneur is motivated by gaining independence—a situation of *carte blanche*—that comes with being one's own boss. The distinction between the first two motivations is that people who desired a change in career are motivated by becoming wealthier or more successful, but those who value *carte blanche* want to be more independent and are ready to accept lower incomes. The third type of entrepreneurs who have lost or are losing their job (or are having difficulty finding a suitable one) and the decision to start the business or take over a bankrupt business from their employer is inevitable. This motivation became more widespread during the economic crisis, which was most severe in 2009. Fourth, place-based factors play an important role as well, in the form of affordable facilities in Kopli (the pioneers) and in the form of a diverse and inspiring environment in Kalamaja (milieu seekers).

We also identify two prevailing reasons why the Northern Tallinn area is chosen as the location for a business. The first is expressed by the entrepreneurs who choose an affordable place for their activities and hope that clients will follow. Only a few firms specialize in providing services or products to a local neighbourhood's residents in this category. The second type of entrepreneur chooses the local ambience that the Kalamaja area and particularly the creative centres offers. This group is more aligned with local people, such as gentrifiers, but they also sell creative services and products to the larger target group, such as tourists, artists, “hipsters”, etc. In both cases the existence of other firms on the site is important. Only the pioneers who belong to the first group accept or even look for an environment where there have been few or no existing prior (contemporary) entrepreneurial activities.

The local diversity gains importance in the Kalamaja neighbourhood, especially in the creative centres, because the atmosphere of creativity, tolerance and simplicity favours tolerance towards diverse groups of people and entrepreneurs with different ethnic backgrounds. Nevertheless, the diversity of the neighbourhood is not a crucial factor for starting a business or moving the business to the present neighbourhood. Rather, it is a positive background effect. These results reflect, to some extent, Richard Florida's (2002) conclusion that tolerance is a crucial aspect that encourages creative businesses. Clifton (2008) formulates tolerance in a wider sense by using the term “quality of place” and relating it to tolerance towards sociocultural diversity, creativity and cultural opportunities. Along similar lines, two keywords arise from our study—independence (desired by entrepreneurs) and tolerance. If the hypothesis is true that tolerant places offer more independence, which is desired by creative interviewees, this freedom may be the reason for the success of creative centres in the district.

Last but not least, a crucial result of the analysis is that the owners of small and medium-sized enterprises interviewed in Northern Tallinn are extremely independent. As there is a search for *carte blanche* and a willingness to manage on one's own, they generally do not

use public subsidies as is the case with most of our interviewees. We also do not see the importance of entrepreneurial networks and cooperation other than in the Kalamaja area and in other creative centres. Creative entrepreneurs have bonding and cluster-type links with other companies, which deserve further research.

4. The economic performance of enterprises and role of urban diversity

4.1. Introduction

Starting a business has always been considered a risk-entailing activity. Previous studies prove that risk-tolerance varies geographically, e.g. the overall risk-tolerance index that reflects the willingness of individuals to take risks is different in different countries. Estonia⁷ scores lowest compared to its neighbours. The risk-tolerance index in Estonia is only 0.29, e.g. lower compared the values of the neighbouring countries. The index score is 0.48 in Latvia and 0.55 in Finland, and in the US, a country that has the highest ‘odds of climbing the entrepreneurial ladder’, the index value is three times higher than in Estonia (Van Der Zwan et al., 2013: 816) With this background information, it might be understood that the overall tendency to start one’s own enterprise, which inevitably also contains some risk-taking, is uncommon among residents in Estonia.

Evidence from literature suggests that the economic performance of the region is strongly shaped by a larger context labelled as entrepreneurship capital. According to Audretsch and Keilbach (2004: 951) entrepreneurship capital can be understood as a district’s supply with factors that foster the creation of new businesses. In other words, entrepreneurship capital is a wide array of contextual factors starting from the overall milieu of the area to the characteristics of the social networks of the entrepreneurs. It can be expected that deprived and diverse neighbourhoods reflect a unique set of entrepreneurship capital (e.g. a higher risk of crime, stigmatization of the neighbourhood, a high unemployment rate, low purchase power of the local customer, cheap real estate, etc.) Thus, one can expect that entrepreneurs who decide to risk starting a business in such an environment differ from the mainstream.

Our case study area, Northern Tallinn is a diverse district in terms of social and physical environment. Even in the context of a generally low level of entrepreneurship, this urban environment has proved to be a sticky place for those people who take the risk to begin business activities on their own. Kloosterman and Rath (2001) have demonstrated how the differences in the growth potential of enterprises can be highly neighbourhood specific and ultimately depend on the opportunity structures that the neighbourhoods can offer, but also how entrepreneurs themselves are able to take advantage of those opportunity structures within the diverse environment.

In our study, we find two major approaches that entrepreneurs take when starting a business in different neighbourhoods of the Northern Tallinn district. Many have started a company as a stand-alone facility, whereas others have started their business at some of the creative centres. We hypothesize that the stand-alone entrepreneurs are those that

⁷ One of the lowest scores among European countries. See Van Der Zwan, Verheul, Thurik, & Grilo, 2013 for further details.

experience the naturally diverse social and physical environment in the district more authentically, while those who cluster into specific creative centre safe-havens make use of an emerging specific micro-environment within the larger, diversified Northern Tallinn district. However, starting an enterprise outside the creative centres/business centres in a diverse district entails higher risk-taking due to the distance from the main customer areas of concentration and other businesses. Those entrepreneurs that start in creative centres safeguard themselves against such risks and usually enjoy a more successful start-up phase. However, it remains to be seen how successful such different location strategies are in the long run.

4.2. Economic performance

Northern Tallinn encompasses many neglected industrial spaces that are waiting for new functionality. In a similar line, the social environment of the district is currently under transition, though different neighbourhoods undergo transition at their own pace. As the district has experienced rapid gentrification and significantly, people with good educational background have been attracted to it, a clear pattern of entrepreneurship emerges—lifestyle entrepreneurs. Lifestyle entrepreneurs appreciate the traditional entrepreneurial rewards package (profit, job creation, performance, innovation, etc.), they value contribution to family, friends and community life, and appreciate overall satisfaction of life (often referred to as “peace of mind”) much more than rapid economic growth (Marcketti et al., 2006; Burns, 2011; Davidson and Henrekson, 2002). They are often the entrepreneurs who choose the location for their enterprise based on the milieu or the “story” behind the location rather than very explicit economic calculations.

Economic performance and lifestyle entrepreneurs

Considering that the companies in the sample are both geographically and chronologically (by foundation year) scattered, it is hard to generalise about the economic performance and its relationship to the diversity. Some of the companies earn just a bit above their costs and invest all the money back into the business, some are still waiting for positive cash flows, and some have enjoyed economic success for a longer period of time.

We asked how the entrepreneurs define success in the case of their company. The majority of the entrepreneurs indicated “people” instead of “money”:

“It is the people who work here and want to be here. / .../ And if our clients want to collaborate with us, and recommend us to others—that’s the criteria of success. Cash flow is not a criteria of success.” (R32, F, 44, Estonian-speaking, communications marketing company, Kalamaja)

Many entrepreneurs expressed themselves as “lifestyle entrepreneurs”—people, who are not running their business for money. This kind of identification was most evident in Kalamaja. Considering the intense period of gentrification in this neighbourhood, it is highly logical that many businesses are established by young middle-class professionals who have moved to the area and who have reached some kind of milestone in their life (e.g. family formation and birth of kids):

“Definitely there are places with a similar scale of cash flow that are far more profitable, but I am not jealous of them, because I see what kind of price they have to pay for that. Peace of soul is also very important.” (R31, M, 40, Estonian, restaurant, Kalamaja)

Economic performance and the neighbourhood milieu

The literature suggests that individuals' decision about whether or not to engage in entrepreneurial activity will be based on their perceptions of their immediate neighbourhood context (Van Der Zwan, Verheul, Thurik, & Grilo, 2013). The diversity of the neighbourhood can be twofold—firstly, the diversity of the physical environment, and secondly, the diversity of the social environment. The social environment can both enable and pose barriers to the economic progression of entrepreneurs. From the positive side, people from different socio-economic and ethnic backgrounds can offer a plurality of new ideas to the neighbourhood: *“When you have different people, then you also have a plurality of ideas, lots of different ideas”* (R37, M, 39, policy expert). Thus, diverse neighbourhoods provide a plurality of ideas.

Looking at the social environment and possible threats to the economic performance of the enterprises, for many decades Northern Tallinn had the image of an unsafe district. Those entrepreneurs who have been in Northern Tallinn for a longer time can tell stories that illustrate unsafe situations that also translated into some kind of economic loss. For example, the personnel of the local restaurants and cafeterias had to call the police and/or an ambulance because of drug addicts entering their properties and acting under the influence of intoxicating substances, with some cases even ending fatally: *“Here in the toilet, a drug addict passed away. [...] A barmaid here was on the edge of fainting”* (R7, F, 53, Russian-speaking, billiard club, Kopli). Many of the early pioneers in the district were more watchful: *“During the first years we were scared. We carried bottled gas in our pockets”* (R34, F, 45, Estonian, body and mind centre, Kalamaja). Considering the possible safety issues in some of the neighbourhoods of Northern Tallinn, entrepreneurs who have lived here longer have a clear advantage: they know their environment better than outsiders.

A good illustration of how the problems in a diverse social environment can be tackled for facilitating the success of businesses can be drawn from a freshly opened local restaurant. The restaurant faced systematic vandalism upon opening—decorative flower pots were smashed frequently. The manager stubbornly replaced the pots until she reached her limit. The local inhabitants saw the situation and brought her new flowerpots, telling her not to give up in creating a nice environment. People had been longing for a nice restaurant, for a more pleasant milieu in the neighbourhood:

“There has been a huge development. Let`s say it so that the city border has come closer to us. [...] Before you had to drive somewhere to find a place to eat, the neighbourhood did not offer any. Not even a food store.” (R16, F, 44, Estonian-speaking, product design, Kopli)

Physical environment

The physical environment is mainly seen as being dynamically transformed into an attractive living, working and leisure environment. Compared to the City Centre and other well established districts of Tallinn, Northern Tallinn has been often characterized as “not ready”, “still in progress”, “with huge potential”, etc. As expressed by one policy expert:

“Since the northern part of the city [Tallinn] in the past was largely empty, it was place where big industries were established. Now a majority of these large enterprises have closed their doors. These industrial city blocks have been empty and looking for new life, new function.” (R37, M, 39, policy expert)

All this fosters flexibility in the business environment. The diversity of the physical environment means that new entrepreneurial inhabitants often have the freedom to locate themselves in the middle of contrasts:

“Many come here and say “Oh my god, where are you located!? What kind of place!” /.../ But I kind of felt that it is a good place, or a right place. And I really liked the house [Signature House, a 100-year-old majestic building right next to a long row of burned down wooden houses, formerly occupied by drug addicts and homeless people] and this concept, their principles.” (R11, F, 41, Estonian-speaking, vintage furniture, Kopli)

Also, neighbourhoods that have not been affected by intense gentrification are full of affordable sites for starting a business. For those companies that are not servicing the customer from the street and that do not see local people as their prime customer, low rents are important for economic success. Therefore, many companies have located their production site to the cheaper parts of Northern Tallinn, mostly to the Kopli neighbourhood. This advantage may be lost, though, in the future. The city is planning to open the seaside, which implies that many affordable neighbourhoods will become development sites in the future, pushing up real estate prices, too.

4.3. Market: Customers and Suppliers

The most important customers identified by the entrepreneurs are local inhabitants and other businesses. Roughly half of the interviewed entrepreneurs defined their number-one client to be a local person. This was mainly the case for cafeterias, pubs and restaurants, but also some other businesses: *“It’s a local pub. That’s the mood I wanted from the start”* (R18, F, 48, Estonian-speaking, restaurant owner, Kopli); *“Our studio was created exactly for servicing Northern Tallinn”* (R34, F, 45, Estonian, body and mind centre, Kalamaja).

The local customer is seen as the most loyal, and in terms of economic performance, such a stable customer base will help seasonal ventures in particular (e.g. cafeterias) to survive all year long:

“Locals are the ones you have to address. When you are not able to reach local people, then basically you cannot hope for success. They are the ones who help you out during hard times. If you win the heart of the local person, you can win the hearts of all the others too.” (R31, M, 40, Estonian, restaurant, Kalamaja)

Local clients seem to be those who have the warmest connection with the entrepreneurs, even with those entrepreneurs who are not living in the neighbourhood themselves:

“It has been a very warm welcome. Local people are highly supportive. For example, the other day we had a situation where we needed an extension cord. One lady heard me when I said I have to go and buy one from somewhere. She said wait, I will bring one for you. She was a total stranger to me. I will bring one for you from home, then you don’t have to go and buy it.” (R13, F, 40, Estonian-speaking, farm food company, Kalamaja)

As expressed by several authors (e.g. Dahl and Sorenson, 2011; Schutjens and Völker, 2010), entrepreneurs who are also inhabitants in the area have an insider’s advantage in relating to customers—thus large local networks contribute to economic success. Furthermore, those entrepreneurs who live in the neighbourhood are themselves

customers and prefer to use the services and products that are offered nearby, feeding the success of other companies in the area.

“We also live here. Actually, we do not leave our neighbourhood very often. We visit cafeterias and restaurants here, thus also enjoying this environment we have here.” (R24, F, 32, Estonian-speaking, design and handicraft, Kalamaja)

The industrial era style of self-confinement is still characteristic to Northern Tallinn. When large manufacturing was established here at the end of 19th century and continued up to the start of the 20th century, housing and all related social infrastructure (kindergartens, schools, shops, etc.) was built for the factory workers. Today, some neighbourhoods like Kalamaja follow this pattern, albeit in a modern way. Many entrepreneurs admit that they rarely leave the neighbourhood: work, living, entertainment—everything is close by. Such daily activity patterns are strongly related to the lifestyle of the entrepreneurs of Northern Tallinn, who value quality of life and peace of mind over a race for profit.

Business clients are import, too, and these are rarely location-specific clients. Business clients are especially important for IT companies, but for the production companies as well: *“In our case of course we do not have this client from the street—we go to the customer”* (R35, M34, Estonian-speaking, IT-company, Kalamaja). For them, there is no difference where they are located. Other businesses offer niche services or products and rely heavily on the conscious customers—irrespective of whether or not those are private or business customers. Therefore, it is the product, not the location, that is important: *“They do not want the mainstream product that is offered everywhere— I see H&M and McDonalds at every corner, but instead I want something a little bit different”* (R36, F, 35, Estonian, clothes retail, Kalamaja), *“I think they are conscious people”* (R24, F, 32, Estonian-speaking, design and handicraft, Kalamaja); *“The client who comes is very much like you”* (R18, F, 48, Estonian-speaking, restaurant owner, Kopli).

A similar note can be made about tourists as customers. Although Northern Tallinn has never been a tourist district, during the past few years it has started to draw tourists as well, especially those who are looking for something unique and non-mainstream, something different from what you can find in the Old Town. In that sense, some entrepreneurs even noticed that tourists who do end up in Northern Tallinn have done their homework and know what they are looking for as customers:

“It is not like in the old town where you have just walk-ins. Here we get people who have done their research and they are interested in beer they read about, [...] it does not matter where it is, they just want to go into that bar, because they know that we sell a good range of beers.” (R25, M, 36, English-speaking, bar, Kalamaja)

A consciousness about its “handwriting” and niche creation is very common to the companies located in the Kalamaja neighbourhood. To some extent they choose their client:

“We have been conscious of which kind of clients we want to work with. [...] We want to work only with those to whom we are able to offer some value. We do not wish to work for the sake of the work itself. I truly believe that when people love what they do, then the profit is a consequence, not an aim in itself.” (R32, F, 44, Estonian-speaking, communications marketing company, Kalamaja)

The places where the customer base becomes increasingly diverse are creative centres—where a large number of enterprises have clustered together. As expressed earlier, creative centres foster a rather safe environment for the companies to become established and grow, and this is most evident in the case of developing a customer base. The agglomeration of niche companies (creative centres tend to be very selective about which kind of companies will get a rental place) into the same place is a huge magnet for customers. As described by one of the non-local entrepreneurs, it greatly matters in Northern Tallinn where the company is located:

“I was keeping my eye on rental places for a long time. I was not able to figure out how to make them be profitable. If it is located somewhere remote, then it is extremely hard to make it function. You basically have to bring the people over there by hand. But Telliskivi [creative city] brings the people for you.” (R36, F, 35, Estonian, clothes retail, Kalamaja)

Changes in the profile of the inhabitants in the district also have an effect on the profile of businesses. While new companies come in, many older ones leave. In Northern Tallinn neighbourhoods like Pelgulinna, Pelguranna and Merimetsa have suffered from the exit of business much more than other neighbourhoods:

“Looking back, at that time [approx. a decade] Northern Tallinn was a pretty well established industrial district. It was easy to do business there. Despite that people tend to think that the bottom of society lives there, there are also business-like people. However, throughout the years the district has become more respectable, yet also less business-like. It has turned into the place where pensioners live. They built nice housing there, but businesses has moved out. Right now we have a lot less customers than when we started.” (R2, M, 60, Russian-speaking, rent and repair of electronical equipment, Kopli)

Then there are neighbourhoods where the gentrification has brought positive effects and the amount of local customers has increased remarkably:

“At the start there were perhaps not so many customers from the neighbourhood. /.../ Now that this neighbourhood has been tidied up, made prettier, there is more so-called client from the street. /.../ Before there were perhaps people with a not so good social background. Now it has become a popular place, where more and more people move to live.” (R15, F, 35, Estonian, beverage shop, Kalamaja)

As neighbourhoods differ in Northern Tallinn in their pace of development, the composition of people and general milieu, so do the profiles of the clients. For example, in the case of Kalamaja, the typical profile of the customer seems to be someone between the ages of 25-45, middle-class, and professional, who lives nearby:

“Sort of 30 year old, successful, maybe artistic, with sound disposable income, not price sensitive, they are more image conscious. This is sort of people who come to this bar. /.../ These guys have been to London and they have seen what was drinking and they want to drink it here in Tallinn. DJ-s, artists, film producers, actors, business owners, whatever - that is our customer.” (R25, M, 36, English-speaking, bar, Kalamaja)

In neighbourhoods less affected by gentrification, cafeterias with windows covered for safety reasons, and with interiors neglected for 20-25 years can be found. This kind of place is legendary in the neighbourhood, where a unique nostalgic experience can be found. Clients in such places are either less affluent locals looking for a good and

affordable place to eat or tourists that seek a unique experience. A couple of the interviewed entrepreneurs provided vibrant illustrations of the differences between the neighbourhoods of Northern Tallinn:

“It seems to me as if they are from totally different nationalities. I do not mean Estonian-Russian, rather it’s like Kopli nationality, Kalamaja nationality, Pelgulinna nationality...” (R34, F, 45, Estonian, body and mind centre, Kalamaja)

“I would even say that Kopli dresses differently than Kalamaja or Telliskivi. Kopli is like velvet jacket and tweed cap, and not like ‘I’m barely 15 and already walking around with a beard and having a checked shirt on. Totally different.” (R18, F, 48, Estonian-speaking, restaurant owner, Kopli)

Differences in neighbourhood milieus also translate into business networks. For example, in the neighbourhoods with a strong sense of community, entrepreneurs as clients tend to prefer local service providers: *“Well, we seek to consume services nearby as much as possible”* (R35, M34, Estonian-speaking, IT-company, Kalamaja); *“I prefer this small cellar shop. I would rather go there even if some things cost 50-70 cents more [than to large supermarkets]”* (R34, F, 45, Estonian, body and mind centre, Kalamaja).

The reason for supporting neighbourhood enterprises emerges from the fact that especially those entrepreneurs who also live here want to contribute to the quality of the living environment of their home neighbourhood and to help their fellow entrepreneurs who are doing their best to survive:

“The strongest [connections] are with those who are close to us. /.../ In that sense I can say that it is a conscious choice. That you go and support the enterprise from your own neighbourhood. This can be sensed really strongly here. You can feel that when people [other enterprises nearby] are out for a good cause, you kind of feel this sense of communion. That we are all doing it for the sake of the neighbourhood.” (R15, F, 35, Estonian, beverage shop, Kalamaja)

4.4. Relations among entrepreneurs in the same neighbourhood: competition or cooperation

A vast number of studies stress the importance of social capital as a facilitator of economic success when doing business in the home neighbourhood. Many social networks are based on ethnic networks. Yet, as Pichler and Wallace (2007: 433) warn, it is not correct to assume that social capital works in universal ways. We should also always keep in mind the cultural context. Although in our sample we had relatively few (namely 5+5) non-Estonian entrepreneurs, and it is hard to generalise, cooperation really seems to be language based and most often it is non-competitive cooperation.

Business networks based on language

One of the policy implementers (R39, F, policy expert) also argues that the business networks seem to be language based. During our study we could locate four of them: an Estonian language-based business network, a Russian language-based business network, a hybrid language network that entails both Russian and Estonian (mostly the younger generation, born in Estonia and having had grade school education in Estonian, thus fluent in both languages), and an English language-based business network. Perhaps the sharpest distinction is between Russian language and all the other networks: *“I know 90%*

of Russian-speaking entrepreneurs from Northern Tallinn” (R2, M, 60, Russian-speaking, rent and repair of electrical equipment, Kopli), “I do not know about other places, but Russians are a more tricky population to have. They have some standard they want. I think we can’t fit in” (R27, M, 34, English-speaking, restaurant owner, Kalamaja). Many entrepreneurs who we talked to even used the expression “there seems to be a red line” through the district of Northern Tallinn.

Ethnic networks often entail social closure since, firstly, minority communities might have difficulties in finding places of encounter with the native communities and, secondly, looking from the perspective of natives, the value of minority networks is not of value or importance for them (Waldinger, 1997). Thus, the role of networks extends deeper than studies tend to portray. Limited cooperation or social closure between the ethnic or language-based business networks can also be seen as a restriction to neighbourhood economic success. In the case of Estonia, a long-established, mainly Russian-speaking minority population has lived in the country for as long as two, three or even more generations. The case of Northern Tallinn might therefore not reflect classical networks among newly arrived in-migrant entrepreneurs. For example, the policy maker (R39, F, policy expert) expressed that the most advantaged group consists of young Russians who are fluent in Russian, Estonian and English, since they enjoy a smooth entry into multiple business networks.

Creative centres as catalysts for cooperation

As a rule, businesses that rely heavily on customers from the street take the location issues much more seriously than those with a wider customer base. This is the reason why many recent entrepreneurs have opened their business in Northern Tallinn with a location with a ready-made milieu and abundant customer-base—to minimize the risks of economic failure:

“It felt kind of logical. I didn’t want to go to some distant cellar shop, to stay there alone. I felt how this synergy here [in the creative centre] might support my business [performance].” (R12, F, 37, Estonian-speaking, restoration of vintage furniture, Kalamaja)

Creative centres are scattered around Northern Tallinn, following the pattern of the former industrial plants district in which they are located. However, they all differ remarkably by their grounding concepts, adding thus an important layer of diversity to the district. When talking to entrepreneurs from different creative centres, some are not even aware of the existence of those operating in other centres, but in most cases they do see themselves as different. In sum, cooperation between entrepreneurs located in different creative centres seems to be uncommon while co-operation between businesses located in the same creative centre is common. In other words, the positive effects of clustering seem to be very local. It is not rare that enterprises located in different neighbourhoods express dislike for some of the mainstream developments happening in other districts: *“It is kind of too mainstream, too popular and too many people” (R11, F, 41, Estonian-speaking, vintage furniture, Kopli)*

“Wherever you go there, all the eating places are busy, overabundant. They just have been in the right place at the right time. Now I am rather thinking that for some people this is becoming too tiresome. Rather, when here [in Kopli] we start having developments, people will come gladly to Kopli.” (R39, F, Policy expert)

So, all in all, the intensity of the interaction and co-operation between the enterprises grows as we zoom in from the district level to the neighbourhood level and from the neighbourhood level to even smaller and more homogenous communities such as language-based networks (the social dimension) or creative centres (the spatial dimension). Two types of benefits seem to stem from the cooperation between companies located spatially close to each other. First, it is easy to join the efforts in arranging some events that are beneficial to all:

“It is not only a shop here. It is also that time after time we get these ideas and this very same shop here is turned into a concert place. In some other [stand-alone] shop this would be difficult, yet here, well, from that floor we get a photographer, from that floor we get the evening leader, right. /.../ Well, synergy is what matters.” (R11, F, 41, Estonian-speaking, vintage furniture, Kopli)

Another direct benefit from the cooperation is of the opportunity for joint-promotion—enterprises in close proximity can easily share the same clients, using word-of-mouth marketing:

“For us the most important thing is that we have a sense of support, we are not alone. In addition, there is a possibility of cross-promotion. /.../ We share the clients and recommend [the business next door].” (R15, F, 35, Estonian, beverage shop, Kalamaja)

In the case of local entrepreneurs who identify themselves as lifestyle entrepreneurs, personal, friend-based relationships outweigh direct business gains. This implies again that the sense of community is the core building block for their business strategy:

“For us it was not easy to start a business here, from scratch. /.../ So today when we see these enterprises [in the same neighbourhood], we want them to survive here. /.../ It will add value to us too if the neighbourhood overall is doing better. It is perhaps kind of subconscious behaviour.” (R15, F, 35, Estonian, beverage shop, Kalamaja)

4.5. Long-term plans and expectations of entrepreneurs

When considering the long-term plans of the companies, entrepreneurs differ remarkably from each other. Some general patterns can still be found. First, young companies, as well as companies that are stand-alone, tend to take one day at a time and short-term planning is more common than long-term visualization: *“Basically, it is living half a year at a time”* (R12, F, 37, Estonian-speaking, restoration of vintage furniture, Kalamaja), *“Keep doing what we are doing, last as long as we can and hopefully will not go into bankruptcy”* (R29, M, 35, English-speaking, comedy theatre enthusiast, Kalamaja); R16 *“Everything is changing so fast, including the economic situation, and thus it is better to plan just for the next month, not for a year”* (R2, M, 60, Russian-speaking, rent and repair of electronic equipment, Kopli)

Similarly, those companies whose main clients are Russians or who cooperate with companies based in Russia highlight the importance of unpredictable forces that can affect their economic performance. They are reserved when looking into the future. For

example, the effects of the Ukraine crisis at the end of 2013, and The Bronze Night⁸ in April 2007 have made them reserved towards making long-term plans:

“From the side of the foreign markets we had severe setbacks that no-one could have ever expected—the Ukraine crisis. /.../ When this all started, the ruble (Russian currency) fell and all these Russian shops started to cancel their orders. /.../ Everything fell basically overnight. /.../ Because of this I had to let go of some of my employees.” (R30, M, 46, Estonian-speaking, sewing company, Kopli)

“Up to The Bronze Night we had good times in this company. A lot of people who did business with Russia lost their cooperation. People started to lose their job. /.../ There was a very clear line. After The Bronze Night it went downhill.” (R7, F, 53, Russian-speaking, billiard club, Kopli)

Companies located in creative centres tend to have a better and safer environment with gains from the synergy of multiple companies accumulating under the same roof. This tends to carry on the future visions that are generally more optimistic: *“The demand has grown as expected and the result is very good”* (R20, M, 46, Estonian-speaking, bakery, Kalamaja); *“I wouldn’t want to move away from this place [from the creative centre]”* (R14, F, 39, Estonian-speaking, art and handicraft, Kalamaja). Also, all of the creative centres in the district are still dynamically developing their business model and, therefore, the businesses located there tend to believe in even better performance in future: *“The fact that they are planning to build the Estonian Academy of Arts over here will bring additional value to the place, to the neighbourhood”* (R32, F, 44, Estonian-speaking, communications marketing company, Kalamaja); *“The hope is that when this place develops, then it will become an even cooler place to be”* (R35, M34, Estonian-speaking, IT-company, Kalamaja).

Some of the entrepreneurs seek opportunities to broaden their activities outside of Tallinn and some aim to start exporting abroad. This is mainly the case for those companies who have achieved stable financial performance and are able to make large-scale investments. Finally, the opposite strategy characterizes lifestyle entrepreneurs. In most cases they are living in the Kalamaja neighbourhood, they value the general milieu expanding there, and they do not have any major ambitions towards expansion:

“I think there was some kind of breaking point “I just can’t do it anymore!”. I am not able to run along with this all. /.../ My aim is not to become a millionaire, but to live right here and right now. Why should I sweat for 10-20 years when I could do it right now? I believe this kind of mind model has started to spread a lot.” (R17, M, 44, Estonian-speaking, media and IT, Pelgulinna)

To conclude, long-term plans and expectations of entrepreneurs towards the future seem to differ by neighbourhood, but also by ethnic and socio-economic background. Differences can be observed between entrepreneurs operating in Estonian and Russian

⁸ The Bronze Night was a stream of riots that surrounded the relocation of the Soviet World War II memorial in Tallinn. According to polls, the majority of the Russian population did not support the relocation of the statue. The riots spread around downtown Tallinn, and violence on the streets and burning down property characterized the riots. The events triggered heated political debates, mostly centering on Russian-Estonian opposition. Further information from media coverage of the events: <http://www.baltictimes.com/news/articles/17774/>

business networks and whether the business is located in the gentrifying or less affluent neighbourhood.

4.6. Conclusions

Neighbourhood entrepreneurs or those who are both living and running a company in the same neighbourhood are often those who experience the most diversity of the neighbourhood, in terms of both social and physical environments. Yet they are also the ones who benefit from having in-depth knowledge of the local customers and the needs of their local community. They have an opportunity to offer products and services that no-one else is offering in the neighbourhood, thus diversifying local services. This is especially notable in the case of the creative centres that all try to differentiate from each other.

Those entrepreneurs who do not live in the same neighbourhood where their business operates have found their way to Northern Tallinn because of the relatively cheap real estate prices or the attractive milieu in the booming creative industries. Those who have started their business in Northern Tallinn because of relatively cheap real estate prices are often not oriented towards the local customer or the customer from the street, but rely on a wider customer base as well as on customers from other parts of Tallinn, from Estonia or even from abroad. All in all, the strategy can be considered cost minimizing—they have moved to a cheap production site.

Stand-alone entrepreneurs have to work hard in order to increase their customer base, especially when they desire to attract the customer from the street. They have to focus on highly conscious customers who are seeking niche products and services and are willing to make an extra effort to find the company. In that light, starting a business in a creative centre is a smart decision economically: initial costs are smaller and they gain advantage from the synergy and concentration of other companies. This draws customers, and there are many more opportunities for networking, co-operation and cross-promotion between the companies in creative centres. All this allows a positive cash-flow to emerge more quickly than it would otherwise.

5. Institutional support and government policies

5.1. Introduction

Konrad (2013) has stressed the need for start-ups to “establish their networks and maintain their business relationships in order to raise their reputation and to have access to information, financial means as well as other resources”. Therefore, it is important for young enterprises to develop the expertise as well as the possible contacts in their field of activity to secure their economic success. According to the EI ER (2013), the competition ability and integration of creative industries with other sectors of the economy should be facilitated considerably more in the future. Currently, the main institutions supporting creative industries in Estonia include the Ministry of Culture, the Ministry of Economic Affairs and Communications, the Ministry of the Interior, Enterprise Estonia, and the Enterprise Agency of Tallinn. In addition, there are three different incubation services for start-ups in Tallinn, and the Estonian Unemployment Insurance Fund coordinates trainings.

In this chapter we will focus on entrepreneurs’ awareness of different support systems provided by the state and the Tallinn city government, as well as on networking by being members of different business organisations.

5.2. Views on the effectiveness of business support provided by local and central governments

The overall opinion highlighted by our interviewees regarding the local government's attitude and support towards entrepreneurs is somewhat negative as the entrepreneurs mainly talk about their negative experiences. This might be explained by the fact that all district governments of Tallinn have a small budget for facilitating entrepreneurship because the current issues addressed are tilted towards solving socio-economic problems. Nevertheless, one third of interviewees stress that the district government of Northern Tallinn has very little or no interest at all when it comes to the activities of different small or medium-sized enterprises. Usually the interest falls in line with the increase of day-to-day or regulatory measures, e.g. parking or annual registration in the Business Registry. The entrepreneurs feel that the main issue tied to rather insufficient interest from the side of the district government pertains to the lack of faith in the enterprises and their success. As one interviewee explains:

“When I went to the Northern Tallinn district government to apply for a business permit they looked at me like—are you sure? They knew that the area near that tram stop was rather infamous for its junkies and criminals, it was awful! Well, it was, of course. When the tram stopped there, it was like a natural disaster. So, they looked at me and my foreign companion and were like: oh my god, are you completely sure?” (R18, F, 48, Estonian-speaking, restaurant owner, Kopli)

Therefore, we can say that entrepreneurs who aim to start their business in a new location face more difficulties than those who choose a location in creative centres or in “safe” and gentrified neighbourhoods, e.g. Kalamaja, even when it is generally known that the situation was less favourable in Kalamaja even only a few years ago. The same issues, although less often, surface when it comes to the attitude of the central government. Six interviewees highlighted that when applying for funding, for example, from the unemployment fund, the enterprise should fit into a certain framework or have certain characteristics, which limits the possibilities of being successful in getting funding or other forms of support. As one entrepreneur illustrates:

“[In our business field] the enterprises used to be defined as household manufacturer, small enterprise, and meat produce factory. Now there are only household manufacturers and meat produce factories—the market has no middle segment. This means that if we wanted our enterprise to be acknowledged, we must have met the same requirements as Rakvere meat produce [the biggest meat producer in Estonia].” (R13, F, 40, Estonian-speaking, food production company, Kalamaja)

This requirement for a certain business framework is often illustrated with government measures which the interviewees define as overregulated, bureaucratic and in some cases even blurred. This means that, for example, an entrepreneur could follow the government-provided structure for a business proposal and even have the government employee provide guidance, but the proposal may still be denied because the line of business does not fit or because the obtained evaluation score is too low. The entrepreneurs stress that you might take the time and effort to fill in the required forms and lay down the initial budget, but the attitude and support provided tends to be indifferent and often only the required minimum is provided. The described attitude of untrustworthiness and disbelief in success when applying are the main reasons why support will not be even considered.

In addition, three interviewees stress that the system or criteria upon which the funding is granted is often incomprehensible, e.g. the big and established enterprises rather than new and small ones seem to be favoured, creating, therefore, a perceived dishonest competition situation. It might be, however, that the small size of the enterprises and very modest participation in the business associations and networks imply that the ability to write competitive proposals could be an important aspect of obtaining access to institutional resources.

Another aspect tied to the attitude and support of the local government is related to the provisions of infrastructure in the area. On the one hand, the entrepreneurs are happy that the Northern Tallinn district is developing and the overall environment is becoming more customer friendly. On the other hand they are not satisfied with how the city manages the concurrent road and tramway construction in the area as it hinders the accessibility of both the entrepreneurs and the customers to the district. Furthermore, one of the entrepreneurs explains that in order to expand their business, the city expects co-financing by the enterprise into the infrastructure.

5.3. Wider awareness of organisations, programmes, and initiatives to support entrepreneurs

Participation in business associations is surprisingly low: only one fourth of 37 enterprises interviewed claimed to take active part in any initiatives or the activities of certain business-related associations. The most often mentioned umbrella association (3 out of 9 times) is the Estonian Chamber of Commerce and Industry (ECCI), the official mission of which is to activate entrepreneurship and develop entrepreneurial skills and traditions in Estonia. This organisation is also an active lobby group and social partner to the Parliament and different government institutions in designing the economic policy and entrepreneurial climate of Estonia.

Regarding key issues like tax policies, property laws or foreign trade, the ECCI speaks on behalf of the Estonian business community.⁹ According to the interviewees, the main value of such organisations is the information they mediate and the (free) training programs they offer. The second umbrella association mentioned was the Association of Real Estate Companies (AREC), which is a union of companies engaged in property brokerage, development, administration and consultations.¹⁰ Again, the association's most valuable function is the information mediation between different real estate developers as well as mediating the interests of real estate developers to the state. As one interviewee explains:

“This cooperation is mainly expressed via information mediation. Market players share information amongst themselves. They are competitors but at the same time as members of AREC they should be the voices towards the state or the municipality, etc. There, of course, is the question of how efficient this cooperation is—it can always be more efficient—but that's always the question with umbrella organisations.” (R10, M, 38, Estonian-speaking, real estate, Kalamaja)

⁹ Estonian Chamber of Commerce and Industry homepage: <http://www.koda.ee/en/chamber-of-commerce/about-chamber-of-commerce/>

¹⁰ Association of Real Estate Companies homepage: http://www.ekfl.ee/web/ekfl/tegevus_eng

Other associations that were mentioned were very specific to fields of activity, for example, the Estonian Fur Association or the Honest Food Club. Again, information exchange and creating contacts in their field of activity are seen as the main positive aspects of participation. One enterprise in our sample is part of the Estonian Business Angels Network, which comprises the enterprises and entrepreneurs that seek investment opportunities in Estonia and its neighbouring regions with an aim to grow the quantity and quality of local seed-stage investments.¹¹

As it became evident, three fourths of entrepreneurs are not members of any business-related associations. The main reasons highlighted are that the entrepreneurs do not have the extra time to contribute to taking part in the activities of the associations. They also do not see enough value obtained from being a member compared to the time, energy or resources (membership fees) needed in order to actively be part of any association. Still, in four cases the interviewees take part in the organisations or NGOs that are active in fields that are not directly related to their business, e.g. in a neighbourhood association, an NGO dealing with children and youth development. Many entrepreneurs are doing well financially and they can afford to relate their business activities to their hobbies or to think about the quality of their neighbourhood of residence. Therefore, it is understandable that many of them play an active role in neighbourhood associations and other organisations.

Interestingly, three entrepreneurs are not even aware whether any associations operating in their field of activity exist:

“I’m not part of any association. I operate on my own. I don’t feel that I have the extra time to be part of an organisation or union at the moment. I don’t have the time to contribute. I actually don’t even know if there is an association that I could be part of. Maybe I should establish one myself where people [who are active in my field] could belong to, but right now I don’t see the need or pressure to do so.” (R12, F, 37, Estonian-speaking, furniture restoration, Kalamaja)

Only one Russian-speaking and no English-speaking entrepreneurs are members of an umbrella organisation or one related to a field of activity. Unfortunately, we cannot make any firm conclusions for why this pattern has appeared; rather, we may assume that as with Estonian speakers the representativeness of association members in our sample is low, it might be even lower with Russian and English speakers due to the language barrier and alternate information fields, i.e. all information regarding different business associations is more readily explained in Estonian and therefore more accessible to Estonians.

Although entrepreneurs are little involved in business organisations, they are somewhat informed about the different programmes aimed at supporting their business activity. Altogether, 33 entrepreneurs could identify different organisations or programmes they know of that provide certain support. The most common organisation mentioned (one fourth of interviews) was Enterprise Estonia, which is one of the largest institutions within the national support system for entrepreneurship by providing financial assistance, counselling, cooperation opportunities and training.¹² The interviewees had already

¹¹ Estonian Business Angels Network homepage: <http://www.estban.ee/about>

¹² Enterprise Estonia homepage: <http://www.eas.ee/eas/?lang=en>

applied or planned to apply for funding, usually in order to start or expand their businesses.

Some entrepreneurs mention the Estonian Unemployment Insurance Fund (EUIF), which operates as a quasi-governmental organisation and a legal person in public law. It performs its activities independently from the government but on the basis of a mission and operational rules defined by law.¹³ The support schemes of the EUIF are mostly known by interviewees who at one point have been officially unemployed and have gotten some counselling from the EUIF about starting their own business. Nevertheless, it must be said that although the interviewees are aware of the support mechanisms and have applied for certain funding, they have not had much success in receiving it. Only 14 entrepreneurs have received some external funding from public bodies for their business. Also, their knowledge about the opportunities for getting funding is limited:

“[I’ve received] business start-up funding from the unemployment fund. ... I haven’t applied for anything else, and I don’t know if there is anything else. Maybe Enterprise Estonia has various funds for business expansion but I don’t think I qualify for those.”
(R12, F, 37, Estonian-speaking, restoration of vintage furniture, Kalamaja)

When it comes to municipal funding schemes, some interviewees mentioned both city and district government-provided project-based support, for example, for hiring additional labour force or trainees, or attending fairs. However, these smaller support systems are mentioned in the past tense, e.g. *“There were times when there was a previous cultural director who rang us up and told us: listen, we have some excess culture funds, quickly now, write a project or application!”* (R3, N, 53, Estonian, theatre, Kalamaja). Therefore, we may assume that the awareness of local government-provided aid has decreased despite the fact that in addition to project-based funding, the municipality of Tallinn provides different business incubation services, e.g. the Kopli Incubation and Culture Hub (R38, F, policy expert).

Support on a local/neighbourhood level is attributed to the four creative centres—Telliskivi Creative Centre, the Culture Hub, the Signature House, and Niine Creative Centre. Instead of funding, getting access to local connections and services is highlighted. For example, if there is an event in Telliskivi Creative Centre, then all services needed for the event are first sought from enterprises within the centre.

5.4. Policy priorities for entrepreneurship

The policy priorities proposed by entrepreneurs in Northern Tallinn may be divided into three categories: legislation and taxes, moral support, and financial support. The most urgent issue indicated by the business owners is the need for stronger moral support. We believe this is directly driven by the lack of attention and support discussed in the previous chapter; interviewees expect more willingness for collaboration and generally more positive attitude and support from the (local) government. The current situation and hopes towards future can be illustrated as follows:

“I don’t detect much help from the district government. This might sound tragicomic—when we have very snowy winters we begin our mornings 30 minutes earlier by digging

¹³ Estonian Unemployment Insurance Fund homepage: <https://www.tootukassa.ee/eng/content/about-tootukassa>

our way to our front door because the district government has cleared the roads but all the snow has been pushed to the sidewalk. Where should our customers park? ... Don't point at the icicle hanging from the eaves, I know it's there. Unfortunately it's like this—they don't care or take responsibility themselves but ask me to care and be responsible for everything. ... We miss humane diligence on their part.” (R34, F, 45, Estonian, body and mind centre, Kalamaja)

According to the interviewees, moral support may also be shown by better disseminating information or by providing training. New entrepreneurs face many questions and obstacles regarding issues pertaining to starting their business. A good way of showing support could be bringing together different entrepreneurs in the same field of activity for exchanging information. One might think that this contradicts the concept of competition, but as an interviewee puts it:

“So among the businesses here we have a nice non-competitive attitude. I was just thinking that once a month I could invite all bar owners in a room and we can talk about our problems, opportunities, about how we can work together, like organization of bar owners in Tallinn. It is much easier if we're all helping each other, not fighting against each other.” (R25, M, 36, English-speaking, bar owner, Kalamaja)

The second strongest shortcoming elicited by the interviewees regards legislation and taxes. This is also confirmed by an entrepreneurship specialist of Northern Tallinn who expressed that entrepreneurs, especially non-Estonian-speakers, need legal advice more often than others (R38, F, policy expert). The entrepreneurs themselves feel that the current legislative and taxation framework is in certain aspects too oriented towards facilitating the activity of larger enterprises and it is much harder for small or medium-sized enterprises to meet these requirements. For example, the social security tax that the employer has to pay is 33% regardless the size of the enterprise, and the same applies for the turnover tax, which is 20%. As one entrepreneur suggests:

“[We need more] legislative support. They should differentiate taxes for small and large enterprises. I understand that you can be cleared of the turnover tax obligation, but that's not it either. Everybody should pay taxes. Some have smaller turnover and therefore they do not pay the turnover tax. In Estonia the social security tax and turnover tax are high. Turnover tax should be lower for small and medium-sized enterprises; that would be fair. Smaller enterprises appear and disappear, the big ones blossom.” (R2, M, 60, Russian-speaking, rent and repair of electronical equipment, Kopli)

Thirdly, as highlighted by 10 interviewees, the entrepreneurs would like to see more financial support from the public sector. We might assume that this desire is directly tied to what we discussed above; for example, more favourable legislation regarding taxes would lead to lower need for endowments, e.g. local government-provided low-rent business spaces. Interestingly, all mentioned suggestions are opposed by seven interviewees who say that they actually do not want or expect anything from the public sector as they enjoy the independence and freedom of not answering to the district government when making business decisions.

5.5. Conclusions

In the case of Northern Tallinn, we may conclude that entrepreneurs are usually not members of their business-related organisations, which might be explained through independence and freedom to master career ambitions expressed as important by the entrepreneurs. These values are seen as the main reasons for starting a business. Still, it is

surprising that entrepreneurs are not well informed about possible organisations they could join, especially the owners of young enterprises.

The attitude and support provided by the (local) government is seen as insufficient and is often portrayed negatively, down to obstructing entrepreneurs rather than supporting them. The interviewees explain that they do not fit into the existing set of criteria for getting support. Although it appears as if the local government favours innovation and new ideas developed into successful businesses, the real situation reflected by our entrepreneurs is quite different because they often perceive incredulity when starting their business.

Finally, it became apparent that the main changes the entrepreneurs of Northern Tallinn expect lie in legal framework and taxation. They are also looking for moral and financial support from the public sector. Since many of the businesses are new and in the “make it or break it” starting phase, it seems appropriate for them to need moral and financial support as well as additional legal advice or favourable taxations.

6. Conclusion

6.1. Summary of the key findings

In this study we focussed on two major contextual factors that have shaped the economic profile and entrepreneurship in the district of Northern Tallinn: first, on the slow retreat of large-scale manufacturing businesses from the area, and second, on the process of creating new physical and relatively cheap space for new contemporary businesses, many of them representing the booming creative industries. The interviewed entrepreneurs in Northern Tallinn are in general well educated irrespective of the line of business in which they operate. However, their education is rarely directly related to their line of activity. Yet their knowledge and preparation for entrepreneurial activities mainly comes from previous work experience or from the personal experience of having lived in other countries where they have learned skills that address a lack of a product or service in Tallinn. Often, the entrepreneurs have previously been waged workers, but have started their own business now in order to achieve independence. We identified an ambition for a kind of second professional career—they aim to make their professional lives more interesting and enjoyable. Interestingly, this entails social mobility in the sense that the waged worker has become a business owner. On the other hand, many businesses owners have undergone downward social mobility by leaving behind skilled wage work (e.g. being lawyer) and starting a business in a more traditional sector (e.g. the food industry).

A distinct group of entrepreneurs are young mothers who have started a hobby-based business after they have stayed at home with their children for a certain period, often exchanging their high-qualified job for entrepreneurial activities related to completely new fields. Again, this often happens in a more traditional sector compared to their skill level and previous wage work. Finally, for some entrepreneurs, starting the business has been an inevitable step after losing their previous job. This was especially the case in the early transition years when many jobs disappeared within a short period, and starting a business ensured employment at least for the owner.

Our material allows us to conclude that **the motivations for starting a business are personal** (e.g. personal development, greater independence or ensuring income). This motivation is structured within a general trend in the district that sees a transformation

from an economic profile with powerful industrial plants towards a more diverse service-based economy. Although the recent years have witnessed both residential and commercial gentrification in the district, occurring as two parallel and mutually enforcing processes as regards the skills and activities of local people, the transformation of the district's economy is still incomplete.

Today, in Northern Tallinn there exist a wide spectrum of businesses from the steel industry and old-timey bars to blooming creative industries and eco-production. **As a rule, the heterogeneous profile of the local population—long-term residents and recent in-migrants/gentrifiers)—also interacts with the diverse profile of the local entrepreneurs.** The most important division line runs between the mostly young middle class Estonian-speaking in-migrants/gentrifiers and local, mainly Russian-speaking long-term inhabitants. The latter are often still performing low-skilled jobs. We find that a similar division runs between the entrepreneurs. Newcomers are often running their businesses in creative industries to provide related products and services, and their preferred locational choice within Northern Tallinn tends to be the creative centres. Their products and services are often intentionally unique, contributing to the diversity of the area. Entrepreneurs who have been living or working in the district longer are running more traditional small businesses such as hairdressing or machinery repair shops, and geographically they are mainly located outside the creative centres. Unfortunately, the evidence of upward social mobility, i.e. moving from one group to another, is rare. This means that the district changes as a result of replacement of local inhabitants and generation exchange and not through the social mobility of long-term inhabitants or their descendants.

Our interviewees do not directly declare that the local diversity is a crucial factor for moving their business to the neighbourhood or starting their activities here; instead the affordable real estate/rent prices and existing and safe climate matter substantially more. **We can distinguish two ways in which the diversity may be conceptualised as a location factor.** First, those companies located in the so-called creative centres—a specific micro-environment where the renters have been carefully selected in order to create a safe haven where businesses gain from co-operation, mutual networks and customers flocking to these areas—are benefiting from a very local diverse micro-space (one or a bunch of buildings where the rental spaces are provided). At the same time, in a way, they are cut off from the general socio-economic and lifestyle diversity found in the district of Northern Tallinn. It is even interesting that co-operation and synergy really occur only within this particular creative centre (micro-space) and the entrepreneurs are not aware of similar companies operating in other creative centres of the district. Thus, the diversity that these enterprises evaluate has been created artificially, mostly within one creative centre only.

The second way to understand diversity as a locational factor is a general socio-economic, cultural and lifestyle mix in a district. We did not find clear evidence that the enterprises directly seek to locate their businesses in such diverse district, at least not because of the diversity per se. However, the stand-alone companies—those located outside the business centres—often look for low-rent facilities in order to keep their production costs low. In diverse areas such as Northern Tallinn that are undergoing the transition from an industrial to service-based economy, such low-cost rental spaces are abundant. Moreover, these spaces are often provided with very good technical facilities, such as specific requirements for energy supply, abundant storage places, free parking, good connections, etc. Such spatial diversity is characteristic to a district that finds itself under transition from an overwhelmingly industrial to a service-based economy.

Most of the businesses in the district of Northern Tallinn have the ambition to offer client-tailored products or services, and this feeds the diversity of the district even more. Especially in the most gentrified Kalamaja neighbourhood, it is noticeable that different entrepreneurs want to avoid mainstream business models and they try hard in order to distinguish their enterprise from others. Eco-friendliness is a keyword here, pursued both by the customers (lifestyle-conscious gentrifiers) as well as by the entrepreneurs themselves (recall that for the latter the aim to make something interesting and new was the reason they started their independent business). The gentrifiers living in Kalamaja are especially very interested in how the product they buy has been made. There is a demand for the personal touch. Interestingly, when seeing the success of such niche businesses as well as the networks emerging in creative centres, new similar businesses and also new creative centres are established—the success stories encourage others to explore this opportunity.

In addition, **an interesting social dimension in the form of language-based social networks operates in Northern Tallinn.** The business networks seem to be strongly language based. We were able to identify four language-based business networks: Estonian language based, Russian language based, a hybrid language network that entails both Russian and Estonian, and an English language-based business network. Thus, the intensity of the interaction and co-operation between the enterprises grows as we zoom in from the district level to smaller and more homogenous founding communities that are place-based creative centres (the spatial dimension) and language-based social networks (the social dimension). In both cases it is evident that a socio-economically, culturally and spatially diverse large district is able to accommodate several more (socially or geographically) delimited micro-spaces/micro-networks that take advantage of their internal diversity and sometimes even oppose themselves to a wider diversity in the district.

Although it seems at first glance that such changes lead towards social exclusion rather than social cohesion in the district, these (spatially and socially) small-scale business networks help to improve the image of the district. Even when only some smaller residential and industrial sub-districts have remarkably improved their physical appearance, it has considerably improved the district's image as a place to live and work, compared to its reputation in the late Soviet period or in the 1990s.

As a final point, **we find that the entrepreneurs in Northern Tallinn are extremely independent, and it seems that the official business-related urban policies have not played a remarkable role in the ongoing commercial gentrification.** The entrepreneurs prefer to collect the information regarding business-related issues on their own. In addition, they use their own finances or support from friends, family and relatives, and see the option of taking a bank loan as an extreme and unfavourable option. However, the entrepreneurs still expect more support from the state and the local government. The small and medium-sized enterprise owners, in particular, feel that the legal framework and support mechanisms in Tallinn and in Estonia favour big and established businesses, thus creating a situation of dishonest competition. Interestingly, most of the entrepreneurs do not belong to any business association. The owners of small firms are often very busy with their daily activities in order to survive and they thus argue that they do not either have the extra time for partaking in the activities of the associations, or they do not see enough value from being a member compared to the time and membership fees required.

Yet it also became apparent that many of the entrepreneurs have only partial knowledge of different associations that might be useful for their business, and unfortunately the same applies with regard to knowledge about different support mechanisms provided by the state and the local government. We therefore see certain contradictions: although the entrepreneurs prefer to be as independent as possible, they still expect more moral and financial support from public bodies. The explanation could lie in the fact that for many entrepreneurs their own business is a so-called second professional career, and therefore it might be that they, as individuals, are relatively well connected in the professional networks that they need to run a successful business anyway.

6.2. Policy recommendations

Create an environment where entrepreneurs can meet and share their experiences.

Similar to many other studies (e.g. Schutjens and Völker, 2010), social capital matters. It is important to foster an environment where entrepreneurs can meet and share their experiences. This is most important to the entrepreneurs who are not local but only operate their business in the neighbourhood. Also, public policies should aim to interact with and support existing micro-networks more and to clarify what the specific needs of local companies are.

Support co-operation because cooperation is highly localized and ethnically segregated.

Co-operation takes place in the context of Northern Tallinn only in specific creative centres. Therefore it is essential to support co-operation between stand-alone entrepreneurs. Some attempts to foster true cluster-development over the several creative centres/business incubators in the district and possibly in the whole city could also enhance the professionalism of local companies in the long run. Merging the ethnic entrepreneurial networks could also open new synergy opportunities within the economic fields.

Promote participation in business associations.

As it became apparent that only one fourth of our sample participated in their business activity-related associations, reinvention or novel ways to mediate the flow of information between these associations and entrepreneurs should be sought. Although support systems like Enterprise Estonia and the EUIF provide such information to a certain extent, it seems that the entrepreneurs are not aware of the exact value that being a member provides. Furthermore, they are often taken aback by the high membership fees (a relevant issue for small and medium-sized enterprises) and harbour some prejudice towards what being a member entails. Still, according to our interviewees, they are interested in creating support networks amongst themselves, e.g. the Honest Food Club. The creation of such networks could be better facilitated by the local government, for example, by bringing together such enterprises who otherwise might not know of each other.

Provide more moral support for small and medium-sized entrepreneurs.

The entrepreneurs *feel* that there is lack of moral support from the public sector and, at times, even negative attitudes are encountered towards concrete activities even though the general public narrative favours entrepreneurship and innovation. There seems to be a certain contradiction regarding the search for and promotion of innovation and actual support provided for entrepreneurs seeking to establish businesses in an innovative way or for a specific niche. Certainly, it takes time to adjust legislative framework so it is more

flexible and open to unconventional businesses, but the local government should be able to compensate for legal complexities with “softer” measures, e.g. providing more counselling and legal advice and fostering connections between entrepreneurs. Also, local entrepreneurs expect more support from the district government. As of today the administrative power and financial budgets of district governments are limited. Decentralising the business support systems, or at least the key tasks within the city government system, could be considered in the longer run.

Facilitate trust between public bodies and entrepreneurs.

Although the incentives for collaboration and innovation are present in the current policy agenda, there still remains certain mistrust and action towards successfully implementing them in reality. The collaboration seems to remain within the limits of each creative centre and does not approach the sphere of the local government because the latter is perceived distant and even hindering of business activity. Again, we suggest that more open and morally supportive action recommended in the previous paragraph should be the first step in building stronger trust between the public sector and entrepreneurs.

Support more general measures for entrepreneurship, including working in the creative sector, among the long-term inhabitants.

Currently, residential and commercial gentrification develop simultaneously, and this is in parallel with the replacement of former residents, workers and service users with newcomers. The opportunities for supporting social mobility via entrepreneurial activities among long-term inhabitants and ways to better harness the potential of the diverse set of residents living in the district should be carefully considered.

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Appendix 1: List of the interviewed entrepreneurs

No	Age	Gender	Type of enterprise (Size, main activities)	Year of found.	Ethnic background
1.	36	F	Size: micro Main activities: retail and professional training	2009	Estonian
2.	60	M	Size: micro Main activities: rent and repair of electronical equipment	1996	Russian
3.	53	F	Size: micro Main activities: event management	1991	Estonian
4.	42	F	Size: micro Main activities: hairdressing	2012	Russian
5.	40	F	Size: micro Main activities: sewing	2006	Russian
6.	28	F	Size: micro Main activities: juridical consultation	1996	Russian
7.	53	F	Size: micro Main activities: entertainment	2014	Russian
8.	34	M	Size: micro Main activities: real estate	2009	Estonian
9.	38	F	Size: small Main activities: restaurant and catering	2010	Estonian
10.	38	M	Size: large Main activities: real estate	2006	Estonian
11.	41	F	Size: micro Main activities: vintage furniture	2014	Estonian
12.	37	F	Size: micro Main activities: vintage furniture renovation	2013	Estonian
13.	40	F	Size: micro Main activities: farm food	2011	Estonian
14.	39	F	Size: micro Main activities: arts and handicraft	2003	Estonian
15.	35	F	Size: micro Main activities: beverages retail	2008	Estonian
16.	44	F	Size: micro Main activities: product design	2002	Estonian
17.	44	M	Size: micro Main activities: media and IT	2013	Estonian
18.	48	F	Size: small Main activities: restaurant, art studio and event organizing	2011	Estonian
19.	50	M	Size: micro Main activities: car repair	1997	Estonian
20.	46	M	Size: micro Main activities: bakery	2014	Estonian
21.	60+	F	Size: small Main activities: pharmacy	1994	Estonian
22.	32	F	Size: micro Main activities: creative artist	2014	Estonian
23.	30	F	Size: micro Main activities: bar	2001	Estonian
24.	32	F	Size: micro Main activities: design and handicraft	2006	Estonian

25.	36	M	Size: micro Main activities: bar	2013	English
26.	50	M	Size: micro Main activities: food industry	2014	Chilean
27.	34	M	Size: micro Main activities: restaurant	2014	French
28.	36	M	Size: small Main activities: restaurant	2013	Indian
29.	35	M	Size: micro Main activities: comedy theatre	2011	Australian
30.	46	M	Size: small Main activities: sewing company	1993	Estonian
31.	40	M	Size: small Main activities: restaurant/cafeteria	2008	Estonian
32.	44	F	Size: small Main activities: communications marketing	2005	Estonian
33.	35	F	Size: small Main activities: cafeteria	2014	Estonian
34.	45	F	Size: micro Main activities: body and mind centre	2007	Estonian
35.	34	M	Size: small Main activities: IT	2013	Estonian
36.	35	F	Size: micro Main activities: retail	2014	Estonian
37.	31	F	Size: micro Main activities: room and office space rental/events organizing	2015	Estonian

Notes:

Size of the company:

micro < 10 employees

small < 50 employees

medium < 250 employees

large >250 employees

Appendix 2: Creative centres in Northern Tallinn.

Telliskivi Creative City was the earliest creative centre and was established in Northern Tallinn in 2009. It occupies buildings that previously functioned as a rail factory. It is situated near the city centre and is by far the most viable and established hotspot for creative enterprises. We came across entrepreneurs stating that their business is successful just because it is located in Telliskivi Creative City. The same claims were made about Kalamaja in general, the most gentrified neighbourhood in the district. Some entrepreneurs also recalled the times when they started their business in Kalamaja when the district was not yet as gentrified and the creative centre not yet as established as it is today.



Figure 3. Telliskivi Creative City.

Niine 11 Creative Centre is situated in a building that dates from 1923 and has been home to a money print shop and a hosiery factory. Today it hosts mainly companies of creative industries (studios dealing with puppet films, yoga, graphical design, etc.). The building itself was renovated in 2012, and thus the creative centre is still relatively young.

Tallinn Creative Hub is a creative centre that is situated in the former building of Tallinn City Central Power Station (which began operating in 1913 and closed in 1979). The centre is operated by Tallinn City Government and was renovated with help from the European Social Funds. Today it rents rooms for several creative organizations, hosts cultural events and exhibitions, provides the use of seminar rooms, and so on.



Figure 4. Tallinn Creative Hub. External view (left), internal view (right). Source: Tallinn Creative Hub.

The Signature House, a former shipbuilding factory hospital that was renovated around 2013 is located in Kopli and is thus spatially now separated from the main gentrifier area Kalamaja. However, the clustering of creative entrepreneurs there has started to define its *je ne sais quoi*,¹⁴ a mentality that encourages many entrepreneurs to

¹⁴ A quality that cannot be described or named easily.

move into the centre. The centre is today certainly cheaper than Telliskivi Creative City and attracts enterprises that are more price sensitive. However, the motivation to settle there is certainly also related to the expectations that the area will gradually become a popular place for gentrifiers.

The youngest of the creative centres (renovated in 2014) is situated in the **Noblessner** quarter and has been labelled the **Creative House** (Figure 5). The Noblessner quarter consists of many slate buildings that functioned as a part of a submarine plant in the beginning of 20th century. Now this outstanding architectural heritage is being restored and developed into a new and highly attractive living and business district that is located right by the seaside. Though it is still too early to forecast, the developers and the first businesses operating in the Creative House offer a sense



that the Creative House will be slightly different from previously mentioned creative centres, Telliskivi Creative City, the Signature House and Niine 11 Creative Centre. The Noblessner Creative House accommodates companies dealing with architecture, design, film-making, IT, eco-products, etc., yet they are not creative small businesses that might seek a place mainly because of the cheaper rent prices. Instead, they are looking for an interesting milieu and high potential for further development.

Figure 5. The Creative House in Noblessner. Source: www.ars.ee/portfolio/noblessner-loomemaja/

The Kopli Incubator (opened in 2004) is perhaps more a business incubation centre than a creative centre. Although many new companies rent rooms under its roof, it differs from other centres by its focus on offering business counselling to the new companies. Thus, the Kopli Incubator can be considered a reflection of city policies towards facilitating and promoting entrepreneurship in a deprived area in Northern Tallinn. The Incubator is situated quite far from the main business and financial centres of Tallinn.