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## SILICON EUROPE

# Study: Startups perform better when close to home

By Olivia Solon | 17 July 12



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Professor Olav Sorenson from the Yale School of Management and Michael Dahl of Aalborg University analysed data relating to 13,166 Danish startups that launched between 1995 to 2004.

The study aimed to find out whether choosing to launch a business close to home (something the vast majority of entrepreneurs do) helped venture performance -- either because of a better understanding of the market and strong social ties -- or whether it damaged venture performance because founders prefer to stay close to home when there might be more favourable economic conditions elsewhere.

Sorenson said: "Ventures perform better -- survive longer, generate greater annual profits and cash flows -- when their founders locate them in their home regions where they have deep roots of family and friends. The effect we found is substantial. It's similar in size to the value of having prior industry experience."

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To assess how the choice of location influences the performance of the companies, the researchers examined startups as well as their founders. The study showed that, relative to a newcomer, an entrepreneur who had been in the region where the startup was based had a nine percent lower failure rate and earned roughly \$8,172 (£5,220) more in annual profit. Each year that a founder lived in the region reduced the failure rate by around two percent and translated into \$1,362 (£870) more in profits

Meanwhile, experience also helped drive a startup to success: entrepreneurs with average prior experience in the industry had an 11 percent lower failure rate and earned \$3,508 (£2,240) more in annual profits relative to an entrepreneur without prior experience.

The study also showed that there were larger benefits to launching in the founder's "home" region in areas that were less populated. This supports the theory that people in smaller communities are more socially-linked.

The study found that "regional embeddedness" can help contribute to entrepreneurial success through a number of paths, helping entrepreneurs to identify promising opportunities and assemble the resources necessary to exploit them.

The authors suspect that having deep roots in the region matters most for "raising capital and recruiting personnel".

The study, "[Home Sweet Home: Entrepreneurs' Location Choices and the Performance of Their Ventures](#)," is published in *Management Science*.

It would be interesting to see how startups launched between 2004 and 2012 fared. It is in this period when we saw the proliferation of web startups which are less reliant on being rooted in a particular place.

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