ENTREPRENEURSHIP

What's the Best Place in the World to Start a Company?

A professor at Yale School of Management offers a new argument about geography and the success of a start-up venture

By JESSICA STILLMAN | August 14, 2012

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Employees of the website Yelp work at the East Coast headquarters of the tech company in New York City

The relative merits of various cities as locations for start-ups are a favorite media talking point.

Is New York approaching parity with fabled Silicon Valley? Check out the start-up scenes sprouting in formerly down-and-out cities! Or, look at the unlikely places abroad where start-up clusters are forming. Stories like these might provide fodder for journalists, but according to recent research out of Yale, they do next to nothing to help aspiring founders decide where to locate their start-ups.

Why is that? Because, according to the study by professors Olav Sorenson of the Yale School of Management and Michael Dahl of Aalborg University, the best place for any founder to start a venture is probably his or her own hometown.

"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," Sorenson told the Yale School of Management News.

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To come to this conclusion, Sorenson and his research partners sifted through data on more than 10,000 Danish start-ups, comparing those started by local founders with those started by folks who were new to the area. The difference was substantial, according to the Yale report:

> Relative to a newcomer, an entrepreneur with an average tenure of 6.4 years in a region had a 9% lower failure rate and earned roughly $8,172 more in annual profit. Each year a founder lived in the region reduced the failure rate by nearly 2%, and each additional year of tenure translated into $1,362 more in profits in each year of operation.

Why might this be so? Sorenson speculates that having deep roots in a region may help founders raise capital and recruit the talent they need for their businesses. This explanation makes sense to the bloggers behind The Drachma Startup, a blog chronicling the author's efforts to start a company in crisis-stricken Greece that deserves a hat tip for pointing the way to Sorenson's study. "On Day 1 of a start-up's life, the founder's past is all you've got. Everything else must be built from scratch," writes the author, elaborating:

> Your own personal skills and experience. Some of them may be universally applicable, but a lot of them, perhaps more than you realize, may have more punch in a place you understand better. Even seemingly innocuous but important things like connecting with your early team are sensitive to location in subtle ways that matter.
>
> Your reputation and network, all things that are necessary to navigate your entrepreneurial ecosystem and get the most out of what you're building. The advantage will be stronger in whichever place you have been more active recently, for most people this will be their home region … Moving to a place more conducive to your type of business, e.g., San Francisco for tech companies, has a lot to offer. But passing up on most of what you are bringing to the start-up may be too high a price to pay.

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If these entrepreneurs weigh their ties to Greece more heavily than the reportedly pretty-abysmal economic and business conditions in the country, then perhaps Sorenson's findings have merit and are worth considering.

When do personal ties to a region outweigh the benefits of joining a distant but well-established start-up cluster?

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