

## Start-ups Located in Founders' Home Regions Survive Longer, Earn Higher Profits

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Start-ups benefit from being located in the regions where their founders were born or have lived for a long time, according to a study by Professors Olav Sorenson of the Yale School of Management and Michael Dahl of Aalborg University.

"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," said Sorenson. "The effect we found is substantial. It's similar in size to the value of having prior industry experience."

Entrepreneurs tend to locate their businesses in their home regions. It was previously unknown whether this location preference helps venture performance through entrepreneurs' ability to exploit their understanding of their home regions and their social connections within them, or hurts performance due to remaining close to family and friends when more favorable economic conditions exist elsewhere.

To assess how entrepreneurs' choice of location influences the performance of their ventures, Sorenson and Dahl examined data on more than ten thousand Danish start-ups and the characteristics of their founders. 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.

By comparison, an entrepreneur with average prior experience in the industry had an 11% lower failure rate and earned \$3,508 more in annual profits relative to an entrepreneur without prior experience.

The results also indicate that regional tenure has larger benefits in less populated regions than in more populated ones, a result consistent with the idea that smaller communities have more tightly woven social fabrics.

"Regional embeddedness might contribute to entrepreneurial success

through a number of paths, but we suspect that having deep roots in the region matters most for raising the capital and recruiting the personnel necessary to start these ventures," said Sorenson.

The study, "Home Sweet Home: Entrepreneurs' Location Choices and the Performance of Their Ventures," is published in *Management Science* (June 2012).

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