

Want Your Startup to Succeed? Stay Home

TIM DEVANEY AND TOM STEIN · AUGUST 1ST, 2012



A new study shows that startups do better when they're launched in the place where their founders were born or have lived for a long time. Makes sense, but the reasons why are surprisingly complex and modern.

Our first guess was that the key to startup success is the founder's ability to go to their parents' house to cadge a hot meal. And that's not entirely wrong. But there's more to it than that.

The study, by Professor [Olav Sorenson](#) of the [Yale School of Management](#) and [Michael Dahl](#) of [Aalborg University](#) in Copenhagen, Denmark, is titled "[Home Sweet Home: Entrepreneurs' Location Choices and the Performance of Their Ventures](#)." It looked at data from 13,166 Danish startups founded between 1995 to 2004 and discovered that companies launched by founders with an average tenure of 6.4 years in a region had a 9% lower failure rate and took in \$8,172 more in annual profit than companies launched by newcomers. Each additional year of tenure reduced the failure rate by nearly 2% and increased profits by \$1,362.

Location = Industry Experience

"The effect we found is substantial," Sorenson told ReadWriteWeb. "It's similar in size to the value of having prior industry experience." Although his study was conducted in Denmark, he thinks the data would look similar in other parts of the globe.

Sorenson surmises that startup founders do better amid familiar surroundings because social networks are vital when you're starting a business. "You need investors and early employees to trust you and those are people you already know," he says.

Prevailing wisdom has it that the path to startup success is shorter and smoother if it leads through Silicon Valley. But Sorenson says this is not necessarily the case. Remember: for every Mark Zuckerberg who moves to the Valley to build Facebook, there are thousands of itinerant founders who go there and faceplant.

Follow the Money

His caveat: if some investor throws a stack of funding at you, go wherever the VC asks you to go. "If you find a VC who will fund your business if you move, you should probably move," Sorenson said. "Because VCs don't just bring money to the table, they connect you to other execs and early employees and suppliers and so forth. So that mitigates some of the disadvantages of moving to a new place."

But what if you live in, say, Idaho and you have a great idea for a new company? Shouldn't you load up the Corolla and set the GPS for Palo Alto? Sorenson said "no". Unless you have VC waving cash at you from Sand Hill Road, you're better off staying home in Coeur d' Alene.

"Your chances of success will be better, your expected profitability will be higher. And for the same amount of money you will probably get higher quality people onboard in Idaho."

And you won't have to pay \$2,000 a month for a one-bedroom apartment in Cupertino.

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