6. Location and New Venture Creation

1. INTRODUCTION

In proposing a new theory of economic geography, Krugman (1991, p. 5) asks, “What is the most striking feature of the geography of economic activity? The short answer is surely concentration [...] production [...] is remarkably concentrated in space.” As for other fields of economics, the impact of geography has not escaped the attention of scholars of entrepreneurship. A recent wave of studies has focused on the location decision of new-firm startups. Indeed, an important finding of this literature is that the impact of geographic characteristics on location choice is anything but neutral. For example, the collection of European country studies included in the special issue of Regional Studies on “Regional Variations in New Firm Formation” (Reynolds, Storey and Westhead, 1994) identified a number of geographic specific characteristics that impact the location of new firms. These characteristics were generally based on those factors identified in earlier studies by Carlton (1983) and Bartik (1985).

In the Section 2 of this chapter, we explain how and why location proximity should generate benefits to knowledge based new ventures. In Section 3, the different types of knowledge outputs and different mechanisms used by new ventures to access knowledge spillovers from universities are discussed. Not only are the types of knowledge and spillover mechanisms heterogeneous, but the capacity to generate knowledge spillovers also varies considerably across universities. However, none of these studies focused on the role of accessing knowledge spillovers in the location choice decision of new firms. This oversight is surprising given that the growing literature
on technology management and the economics of innovation has found that knowledge spillovers play an important role in fostering entrepreneurship and innovative activity (Sorenson and Audia, 2000; Baum and Sorenson, 2003). In addition, spillovers from universities, research parks, as well as from private firms, have been identified as a key source promoting firm innovation and performance (Stuart and Sorenson, 2003; Link and Scott, 2005).

Thus, in the Section 4 chapter we identify the role that location plays in influencing new venture creation as well as new venture performance. In particular, we introduce a new data base consisting of 281 publicly listed new ventures in German high technology and knowledge industries is used to identify empirically in Section 5 how location choice varies for different types of knowledge and spillover mechanisms. In the last section, a summary and conclusion are provided. In particular, the evidence suggests that, in general, knowledge and technological-based new ventures have a high propensity to locate close to universities, presumably in order to access knowledge spillovers. However, the exact role that geographic proximity plays is shaped by the two factors examined in this paper—the particular knowledge context, and the specific type of spillover mechanism.

2. NEW VENTURES

Within the economics literature, the prevalent theoretical framework has been the general model of income choice. The model of income choice dates back at least to Knight (1921), but was more recently extended and updated by Lucas (1978), Kihlstrom and Laffont (1979), Holmes and Schmitz (1990) and Jovanovic (1994), and addresses the fundamental question, “Why and how do individual economic agents decide to start a new venture?” Thus, the unit of analysis is at the level of the individual economic agent. In its most basic rendition, individuals are confronted with a choice of earning their income either from wages earned through employment in an incumbent enterprise or else from profits accrued by starting a new venture. The essence of the income choice is made by comparing the wage an individual expects to earn through employment, \( W^* \), with the profits that are expected to accrue from a new-venture, \( P^* \) (Parker, 2003, 2004). Thus, the probability of starting a new venture, \( Pr(s) \), can be represented as:

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Pr(s) = f(P^* - W^*).
\] (1)

The model of income choice has been extended by Kihlstrom and Laffont (1979) to incorporate aversion to risk, by Lazear (2002) to include characteristics of human capital and by Lucas (1978) and Jovanovic (1994) to