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## SPATIAL ISOLATION AND RESOURCE ACQUISITION IN NEW VENTURES (INTERACTIVE PAPER)

Thomas H. Allison

*University of Oklahoma, tallison@ou.edu*

Lawrence A. Plummer

*University of Oklahoma*

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## ≈ INTERACTIVE PAPER ≈

**SPATIAL ISOLATION AND RESOURCE ACQUISITION IN NEW VENTURES**

*Thomas H. Allison, University of Oklahoma, USA*  
*Lawrence A. Plummer, University of Oklahoma, USA*

**Principal Topic**

By not benefitting from agglomeration economies, spatially isolated firms and new ventures in particular are at a competitive disadvantage relative to their counterparts located in highly concentrated areas (cf. McCann and Folta, 2008). While mounting evidence supports this premise, McCann and Folta (2008) posit that entrepreneurs have options to offset the disadvantages of their venture's spatial isolation, one of which may be the act of seeking to acquire resources located within more highly concentrated areas. We investigate the conditions under which entrepreneurs resort to formal (i.e., contractual) arrangements to access the resources needed for venture creation. Specifically, we hypothesize that spatially isolated entrepreneurs are more likely to pay other organizations to assist with starting their ventures because the needed resources are less abundant locally than they are in densely concentrated areas.

**Method**

Using data on over 1,500 entrepreneurs obtained from i2E, an organization chartered to help entrepreneurs launch new technology ventures, we estimate how spatial isolation affects the probability that an entrepreneur will become a paying client of i2E's advisory services. Entrepreneurs paying a fee to become a client are introduced to sources of seed funding, and receive other assistance in launching their ventures.

**Results and Implications**

While we find that the probability an entrepreneur will become a paying client of i2E increases with the venture's spatial isolation, our analysis also reveals an inverted-U shaped relationship. That is, the highest probability that the entrepreneur will pay the fee is for ventures located in micropolitan communities—non-metropolitan areas of approximately 40,000 residents. We interpret this interesting result as indicating a “floor effect” whereby accessing resources via a formal arrangement (i.e., fee basis) can substitute for local access to resources, but only to a limited degree. We infer from the results that entrepreneurs in highly concentrated areas are less likely to pay the fee because resources are locally plentiful, while entrepreneurs in the most isolated communities are also less likely to pay the fee because doing so would not materially change their prospects for success, given the low density of locally-available resources.

**CONTACT:** Thomas H. Allison; tallison@ou.edu; (T): 405-325-5692; (F): 405-325-7688; University of Oklahoma, Michael F. Price College of Business, Adams Hall Room 206, 307 W Brooks Street, Norman, OK 73019, USA.