ORGANIZATIONAL SPONSORSHIP AND THE ECONOMICS OF PLACE: THE EFFECTS OF URBANIZATION & LOCALIZED COMPETITION ON STARTUP LONGEVITY (SUMMARY)

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Principal Topic

Urban economists argue that agglomeration economies are particularly advantageous to startups by facilitating local access to product and factor markets (Gordon and McCann, 2005). Agglomeration economies net benefits accrue from urban scale (urbanization economies) and those that accrue from same-industry spatial concentration (localization economies). However, geographical concentration of firms often intensifies inter-firm competition and inflates the cost of needed inputs, which in turn, may be detrimental to survival by amplifying the “liability of newness.” As a response to these concerns, organizational sponsors have emerged in an attempt to attenuate the environmental adversity facing the early stages of a startup.

Organizational sponsorship refers to deliberate attempts to grow economic activity by increasing the founding and quality of start-ups through support that aims to lower a start-up's risk of failure and improve its performance (Flynn, 1993). Interest in organizational sponsorship has become prevalent across most national and local governments due to the relevance of entrepreneurship and innovation in responding to the competitive challenges of globalization.

Method

Against this backdrop, we investigate the effects of organizational sponsorship in new venture survival across different agglomerated economies using localized dimensions of competition, and sponsor’s attributes. We focus on business incubation and study each company that received external support for a period of 15 years in the USA. Our data consists of 1) a database of 990 business incubators, 2) a database of 18,400 firms incubated at these business incubators, and 3) a matched comparison group of 35,300 non-incubated firms. Our measures of agglomeration and industry density were built using the U.S. Census's County & Zip Code Business Patterns databases and reflect the size of each economy and the prominence of a particular sector of activity, respectively. Finally, our measure of specialized organizational sponsorship relies on the Herfindahl index and quantitatively distinguishes between incubators that specialize in a particular industry versus those that lack an industrial focus.

Results and Implications

Preliminary results confirm our working hypotheses that sponsored firms survive longer than those not sponsored. At the same time, we see that firms located in agglomerated economies also show a positive impact in terms of survival.

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