

7-10-2017

INTEGRATION VS. SPECIALIZATION IN NEWLY LEGITIMATE INDUSTRIES (SUMMARY)

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Recommended Citation

Sproul, Curtis R.; Cox, Kevin C.; and Nicholas, Karen (2017) "INTEGRATION VS. SPECIALIZATION IN NEWLY LEGITIMATE INDUSTRIES (SUMMARY)," *Frontiers of Entrepreneurship Research*: Vol. 37 : Iss. 11 , Article 9.
Available at: <https://digitalknowledge.babson.edu/fer/vol37/iss11/9>

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 SUMMARY **INTEGRATION VS. SPECIALIZATION IN
NEWLY LEGITIMATE INDUSTRIES**

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Principal Topic

In 2014 the State of Colorado legalized the sale of marijuana for recreational use. This regulatory change resulted in the rapid emergence of a new industry unlike any other. The legalization of recreational marijuana in Colorado represents a unique instance of a formerly black market instantly converting into a legal industry. The end result is a large-scale, real-time natural experiment deserved of study, as other states are generally liberalizing laws regarding marijuana enforcement, helping fuel an industry which is predicted to eclipse 7.1 billion dollars in 2016.

Firms in Colorado must obtain a license to operate as a legal business in the marijuana industry. Businesses may be retail stores, cultivators, product manufacturers, testing facilities, or any combination. As such, firms have choices regarding their level of integration in the value chain. We hypothesize and test relationships relating to levels of value chain integration and firm survival, as well as clustering.

Method

The State of Colorado publishes monthly reports regarding overall taxes collected, allowing for the derivation of total industry revenue. A list of firms licensed in each stage is also publicly available and updated monthly, creating the opportunity to track firm entry, exit, survival, and integration into specific stages. Data is collected from the industry start-date in January, 2014 through December, 2016. The dependent variable, firm survival, is measured as the complete exit of a firm from the industry. Integration and specialization capture whether a firm is in more than one stage in the value chain (retail stores, cultivators, product manufacturers, or testing facilities), measured by the existence of a license for that stage. Clustering is measured at the zip code level. Controls include industry growth, county-level munificence (sales) and population, and firm age.

Results and Implications

The results suggest that there are indeed implications for firm survival that can be attributed to a firm's level of integration and specialization. In addition, we find that clustering effects also play an important role in survival of firms in newly legalized marijuana industry. In this newly legalized industry, early indications are that firms' initial decisions regarding location and specialization impact survival.

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