

Concentration of entrepreneurs no accident, says U of T professor

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(PhysOrg.com) -- Why do entrepreneurs flock to startup meccas like the Silicon Valley or Boston? A recent working paper shows that density or thickness of local input markets translates into faster productivity and higher profitability.

The paper is co-authored by professors at the University of Toronto's Rotman School of Management and the University of California, Berkeley's Haas School of Business.

The thickness of the market is defined by the concentration of resources, such as skilled workers, that are critical to the success of startup activities. The study also found that thicker markets offer a support system that permits more specialized entrepreneurs, those whose prior experiences are concentrated in one industry or activity, to operate more profitably than they would in a smaller entrepreneurial economy.

The working paper, *Entrepreneurs and Cities: Complexity, Thickness and Balance*, is co-authored by Haas Professor and Chair in Real Estate Development Robert Helsley and Professor William Strange who holds the RioCan [Real Estate Investment](#) Trust Professorship in [Real Estate](#) and Urban Economics at the Rotman School.

"This paper looks at how the characteristics of a local economy facilitate entrepreneurial activity," said Helsley, "There are many benefits to having entrepreneurs cluster in one place."

The researchers built a model based on a project taking place in one city, with all of the project's tasks being carried out simultaneously. The model showed that the economies of urban agglomeration -- the benefits of extended cities and towns of an urban center -- help produce not only higher quality results but also shorter project completion times. For example, the time that it takes an entrepreneur to receive initial funding from a venture capitalist is shorter for projects initiated in large clusters of related activity.

The researchers also discovered that a natural hierarchy of cities considered desirable by entrepreneurs emerges based on the level and complexity of activities that occur in a given city. There is a natural relationship between the thickness of markets and the complexity of the activities that they can support. The study determined while many types of cities can support basic entrepreneurial activities, the most complex projects are only feasible in large clusters where the benefits of thick markets are most pronounced.

More information: The complete study is available at bit.ly/9PelQn

Provided by University of Toronto

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