Tech startups gravitate toward cities with strong social networks, study finds

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The presence of technology startups can drive economic growth for their home cities. So how can cities better appeal to entrepreneurs? A new study from the McCombs School of Business at The University of Texas

at Austin shows the connections they can offer matter more than big money.

The research shows that today's successful tech entrepreneurs gravitate to areas where they have a strong social support network and can also obtain multiple rounds of relatively modest funding.

"If you're starting a restaurant, location matters and large funding matters," said Rajiv Garg, assistant professor of information, risk and [operations management](#) at the McCombs School. "But if you're building a mobile app, the cost is low and nobody cares where you're located, so the factors that influence a move are different."

To pinpoint those factors, Garg, along with John Sibley Butler, professor of management at McCombs, and Bryan Stephens, postdoctoral research associate at Duke University's Fuqua School of Business, conducted a study, "Social Networks, Funding, and Regional Advantages in Technology Entrepreneurship: An Empirical Analysis," published today in *Information Systems Research*.

The researchers used economic indicators made publicly available by the United States government, investment information from CrunchBase and PricewaterhouseCoopers, and data from LinkedIn to analyze 1,418 U.S. entrepreneurs who had secured funding for their firms during the past 10 years.

Surprisingly, the amount of money available in a location did not significantly affect a startup founder's decision about where to operate, Garg said.

Real estate and other costs of living are deterrents to starting firms in places such as Silicon Valley and New York City. Instead, today's entrepreneurs are gravitating to cities such as Austin, Seattle, San Diego

and Denver, where costs may be lower. The entrepreneurs in the study were concerned with steady access to smaller sums—with hopes for bigger sums after they bring in some profit and build a strong customer base.

"We found angel investors play a huge role, because they give a small amount of money but a much larger volume," Garg said. Equally attractive, he said, are venture capital firms that are willing to distribute, for example, $10 million of funding among 10 startup firms, versus directing all of the funds to one.

Researchers also observed the strong role of social networks in tech entrepreneurs' decisions about where to locate. The more LinkedIn connections they had in a city, the more likely they were to stay based there. This concentration of social connection had the same "sticky" effect for people who had not yet started their business, strongly predicting whether they would stay or move before their launch.

"We found that having more connections in a particular city not only pulled talent to that area, but it kept them there," Garg said. The draw of a strong social network is especially impressive, because the research revealed that tech entrepreneurs were less likely to move than other types of entrepreneurs.

So cities looking to attract entrepreneurial talent would do well to foster these social connections through events or organizations such as the South by Southwest megaconference and nationwide accelerator program TechStars. They also need to draw young entrepreneurs, just not too young. The target age for these entrepreneurs is early 30s, the research found: Entrepreneurs in this age range were the most successful, boasting youthful energy coupled with maturity and work experience.

"This is very important for cities that are shrinking or dying because of their location," Garg said. "They aren't in a great hub, but they could make themselves more appealing to tech entrepreneurs just by following a few simple steps."

Provided by University of Texas at Austin