Study Shows Atlanta Kills Off Start-Up Companies

28 September 2009

Danny Breznitz, assistant professor in the Ivan Allen College of Liberal Arts, found that 40 percent of Atlanta's high-tech start-ups leave within three years. (Photo: Rob Felt)

(PhysOrg.com) -- Atlanta is poised to become the nation's poster child for how to kill off a burgeoning industry. A new study by professors at Georgia Tech reveals that the city's reputation as a high technology center masks a decade of erosion. Though it leads the U.S. in the physical resources that attract and sustain high-tech industry, Atlanta companies haven't meshed within the local economy. The result has been a steady migration of companies to other states and an industry profile described by the study as "at best, stagnant." The findings offer a wake-up call to Atlanta and a roadmap for other regions looking to grow high-tech industry.

Study findings show that 40 percent of Atlanta's high-tech start-up companies leave for other states within three years. California, New York, New Jersey and Florida are common destinations for Georgia-born IT companies. That, combined with a persistent decline in large IT companies, accounts for the industry malaise.

"Instead of building great high-tech companies, Atlanta has become a feeder system for great high-tech companies in other states," says study author Dan Breznitz, assistant professor in the Schools of International Affairs and Public Policy within the Ivan Allen College of Liberal Arts at Georgia Tech.

Breznitz, and co-author Mollie Taylor of the Enterprise Innovation Institute and the Sam Nunn School of International Affairs, set out to settle the debate over what induces sustained regional entrepreneurial growth in the high-tech industry - physical resources or business social structure. They focused their research on the Atlanta metropolitan area because it leads the U.S. in the physical factors necessary for developing technological-entrepreneurial clusters: top research universities, a large educated labor pool, a wealth of new technologies and entrepreneurs, a vibrant creative class and generous venture capital financing. Atlanta has also been perceived as having the social business structure needed to induce growth. The study revealed otherwise.

"The metro area excels at incubating high-tech businesses, but it lacks the cohesive business social structure needed to sustain them, so many of the most promising young companies leave the city," says Breznitz. "Atlanta high-tech companies don't interlock with each other, and the large companies that control industry in Georgia don't interlock with the high-tech industry," says Breznitz, highlighting a complaint that he and Taylor heard consistently from the area's high-tech workforce.

Analysis of Atlanta's most promising new companies and the city's top 50 technology firms revealed little contact either between IT executives with those of Fortune 500 or with other technology companies. CEOs, attorneys and managers in Atlanta IT companies don't sit on each other's boards and don't communicate. The problem isn't unique to the city's IT industry, but there are far fewer interlocks within the IT community than in other industries that are successful in the region.

The study identifies the need for policies and institutions that stimulate information sharing, collective learning, access to resources and business community building. It also identifies venture capital industry with true local focus (which Atlanta lacks) as crucial to embedding a company locally. In conclusion, business social variables are crucial for long-term entrepreneurial-technological economic growth, and unless Atlanta's high-tech industry develops multi-dimensional locally centered social networks, it will continue to stagnate.

Provided by Georgia Institute of Technology

APA citation: Study Shows Atlanta Kills Off Start-Up Companies (2009, September 28) retrieved 20 October 2021 from https://phys.org/news/2009-09-atlanta-start-up-companies.html