

Is Geography Destiny for New Ventures?

By David L. Deeds, Joseph E. Coombs, and R. Duane Ireland

Looking for originality in business and studying how and why new ideas succeed are academic fortés of David L. Deeds, associate professor organizations, strategy and international management. Also academic director of the Institute for Innovation and Entrepreneurship at The University of Texas at Dallas, Dr. Deeds has teamed up with Joseph E. Combs and R. Duane Ireland, both business faculty members at Texas A&M University, to investigate ways new ventures can keep less-than-optimum location from blocking the road to success.

The search for novelty—that innovative and valuable product or service—is the essence of most technology-driven new ventures. Novel ideas that lead to the success of a new venture often combine knowledge, skills and ideas gleaned from the environment. This reasoning underpins a stream of research that has found that significant advantages accrue to ventures located in a geographic region in which a cluster of similar firms and supporting organizations are located.

Specifically, ventures in a cluster benefit from a larger labor pool, specialized suppliers and knowledge spillovers. Benefits of being located in a cluster include improved access to capital, higher rates of survival, and more patenting and new product introductions. Clustering benefits have been shown in a variety of industries including hotels, footwear, computer hardware and software, and biotechnology. This research led us to a simple question: Is geography destiny or can the disadvantages of not being in a cluster be mitigated?

Results of a recent study indicate that geography is not destiny. The disadvantages of not being in a cluster can be overcome through collaboration with players located in clusters. In fact, cross-pollinating several clusters may actually enhance innovation. Specifically, in a study of 176 biotechnology firms we found strong evidence that firms outside clusters benefited from balancing their collaborations between researchers at universities, research institutions and firms located in clusters and those in their area. The punch line being that geography is not destiny. You don't have to move to the Silicon Valley to be competitive. Collaborating with firms and institutions located in clusters, as well as with your local institutions can overcome any disadvantage due to location. Collaborating in several clusters may even enhance your ability to generate novel, innovative new products.
