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The local factors that affect where new businesses are set up¹

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INTRODUCTION

Some local areas attract more new businesses than others. What is it about these areas that so appeals to firms? Access to potential employees with the right skills, being connected to broadband networks and having good transport links are often cited as important factors. Understanding the preferences of new businesses is important for those devising regional policy and for localities trying to attract more investment and employment. In this research we try to measure the relative importance of these and other local characteristics for firms setting up in parts of Ireland outside the Dublin region.

DATA AND METHODS

Detailed information exists on where new firms have set up in Ireland over time. This includes both indigenous and foreign-owned firms. These data are collected annually by the Department of Business, Enterprise and Innovation (DBEI). To disentangle the many local factors affecting where new firms go, we link the number of start-up firms each year in 190 localities around Ireland to data on many local characteristics thought to be important to business; in particular indicators measuring the availability of highly educated people and accessibility of broadband networks, motorways, rail networks and airports from each locality. The analysis is limited to areas outside the Greater Dublin Area, both because attracting firms to these areas is assigned a high priority by regional policy and because Dublin has particular attributes as the capital region that are hard to compare to other areas. We also omit areas with low employment density, since there are few examples of firms setting up in rural areas far from towns and cities.

¹ This Bulletin summarises the findings from: McCoy, D., S. Lyons, E., Morgenroth, D. Palcic and L. Allen, 2018, The impact of broadband and other infrastructure on the location of new business establishments, *Journal of Regional Science*. <http://dx.doi.org/10.1111/jors.12376> .

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Using statistical methods, we then develop models of how much each factor (or combination of factors) contribute to the number of business start-ups in a given place and time. The results show both which factors make a statistically significant contribution and also allow us to estimate the scale of each factor's importance compared to the other factors. We check for differences in the factors affecting indigenous and foreign-owned firms and firms in high- and low-tech sectors.

RESULTS

Educational attainment of local residents is highly attractive to start-ups; we use the share of the population with a third-level qualification as an indicator for this, and it has the largest effect of the factors in our models.

Infrastructure matters too. Local broadband access seems to attract almost all types of firms, while the appeal of an area for high-tech firms is also boosted by availability of high-speed "middle mile" infrastructure (Metropolitan Area Networks). However, a key finding is that broadband's effect on start-ups depends on the education level of an area's population. Only areas with enough highly qualified staff seem to enjoy a boost in start-ups when they have broadband network access. This is in line with international research that broadband mainly benefits manufacturing and service activities performed by highly skilled staff.

Motorway and airport accessibility, affected by both an area's location and road connectivity, seems particularly important to high-tech foreign-owned firms. Low-tech domestic firms are also attracted by road accessibility.

Start-ups are also more common in areas nearer to a third-level educational institution and those with more diversity of skills rather than specialisation in a small number of economic activities.

POLICY IMPLICATIONS

Decisions about where to build different types of infrastructures such as broadband and transport are not often taken together or considered along with other factors such as health care provision or education. This is understandable, because government departments and agencies usually have discrete mandates designed not to overlap too much.

However, if the economic benefits from investing in a particular infrastructure depend upon what other infrastructures are in place or on other characteristics of local areas, deciding on each investment programme separately will not lead to the most efficient and effective outcomes. For example, we find that the effect of broadband on new firm start-ups depends upon having plenty of highly educated workers in the area. To reap the full potential benefits of a broadband roll-out in a structurally weak area is likely to require parallel measures to strengthen local human capital. This would make the area more attractive to new firms both directly through the education level of available staff and indirectly through their ability to exploit digital technologies effectively.

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