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Bringing in the Buyers: Leveraging Entrepreneurs’ and Executives’ Venture Location Decisions
Matthew Wood, PhD, Jeffery McMullen, PhD, and Alexander Kier, PhD

It is well documented that real-estate markets fluctuate over time, but since the financial crisis, real-estate markets have begun to fluctuate across geographic regions as well. One leading contributor to this disparity is public policy that seeks to encourage entrepreneurs and business leaders to locate in a state, or a specific community within a state, over another. Caught up in this contagion, government officials have infectiously engaged in the widespread implementation of incentive structures designed to attract new business to their region, and now find themselves in an incentive war (Forman 1997). A 2015 Council for Community and Economic Research (C2ER) report, for instance, documents that the total number of state-incentive programs targeted at businesses has more than doubled to nearly two thousand in the last 15 years (Gutschow et al. 2015). The vast majority of these programs offer tax credits and exemptions as business incentives.

This article suggests that rapid growth in incentive programs oversimplifies the issue of attracting business to a specific region. First, the socio-political attributes of an area are likely to involve more than corporate and real-estate tax rates, including among other factors: the cost of living, the aesthetics of the community, the amount of regulation, etc. These socio-political attributes provide the choice architecture that business leaders confront in their decision making about where to locate. Must we assume that these attributes resonate with all business leaders in the same way or might there be systematic differences? If such differences exist, then what we know about how executives make decisions regarding business-location decisions may inform the extent to which a community can attract new businesses to the area. This may be especially important to real-estate professionals because the business represents a commercial buyer whose employees become residential market players once the business chooses to locate in a given community.

Attributes of Location Decisions and Executive Characteristics
Our recent study published in Academy of Management Perspectives studied location decisions via an experiment with 329 executives indicating preferences about where to locate a new venture (McMullen, Wood, and Kier 2016). Following cognitive science research on belief
formation, we proposed that executives use the socio-political attributes of the environment to develop beliefs about circumstances and what actions can profitably be taken in those circumstances. Looking to academic research and anecdotal evidence, they identified five attributes as important to new venture location decisions, including regulation, cost of living, business support services, natural and cultural amenities and whether the executive would be required to relocate with the new venture. Their focus, however, was not on the main effects of these attributes; instead, they examined whether variations in these location attributes affect location decisions differently depending on the individual characteristics such as managerial position (corporate executive or entrepreneur), political party identification (Democrat or Republican) or political values (importance of law and order, free enterprise, etc.). Individual characteristics, we reasoned, influence how location attributes are interpreted.

Key Findings

We discovered that individual difference characteristics such as managerial position, political party identification, and some political values influence interpretations of socio-political attributes of a region. First, our research uncovered that that new venture location decisions are clearly affected differently by managerial position. Increases in support services and natural and cultural amenities make locations more appealing to all, but corporate executives experience these positive effects more strongly than entrepreneurs. Conversely, the need to relocate permanently is unappealing to everyone, but it has an even more dissuasive effect on corporate executives.

Second, our study found that managerial politics shape interpretations of socio-political attributes of a region. Members affiliated with both the Democratic and Republican parties considered regulation to be a disincentive and business support services to be an incentive for locating a venture in a particular region. The disincentive of regulation, however, significantly weakened as managers identified more heavily with the Democratic Party, whereas the incentive of support services weakened for managers who identified more heavily with the Republican Party. We interpreted these findings as evidence that regulation and support services may be politically polarizing location decision attributes. This suggests that individual subscription to the ideals or platform advanced by the Democratic Party may evoke greater tolerance of regulation whereas the Republican platform may encourage skepticism of business support services among members of its ranks.

Finally, our study considered business leaders’ political values of free enterprise, civil liberties, law and order, and equality. Free enterprise and civil liberties each affected only a single socio-political attribute – relocation and cost of living – respectively, while law and order affected both regulation and amenities significantly. Equality was the only political value that influenced the multiple attributes of the location. It significantly affected both regulation and regulation’s
interaction with cost of living while marginally affecting cost of living, amenities, and need to relocate.

**Implications for Bringing in Buyers**

We believe there are important lessons to be learned by real estate professionals from our 2016 study. Specifically, the fact that two socio-political attributes (support services and natural and cultural amenities) positively charge executives’ location decisions indicates that, all else equal, executives prefer locations that have robust support services as well as attractive natural and cultural amenities. For real-estate professionals, this suggests that an effective strategy for attracting buyers would be to emphasize the presence of business support services and the availability of natural or cultural resources within the community. One could, for example, develop marketing materials that promote the opportunities an area offers executives and employees of the firm to enjoy natural amenities such as biking trails or cultural amenities such as strong theatre arts or musical offerings.

Another lesson that comes from the study is that - while this strategy might work well for corporate executives considering relocating existing firms - it may be less effective when targeting entrepreneurs who are considering a start-up in a specific community. In the latter case, agents might wish to develop messaging and advertising tailored to this audience. For instance, if vacant commercial property is more likely to be attractive to a start-up entrepreneur, marketing efforts should focus on the attributes that entrepreneurs highly value, such as business support service. Given that location decisions affect the performance of entrepreneurial ventures (Dahl and Sorenson 2012) and that such ventures are an engine for economic growth (Holcombe 1998), this is especially important to developing a pipeline of new customers for years to come.

A final takeaway from our 2016 study is that real estate professionals may want to examine which political values tend to have consistent effects on location decisions. For example, agents who are seeking to attract executives to an area burdened by a high cost-of-living may want to avoid promotional messages that tap into the more libertarian-inclined value of civil liberties and instead accentuate the social justice sympathies of equality. Equality weakens the negative effect of high cost of living, making it less important in the location decision, whereas civil liberties enhance executives’ concerns over high cost of living, making the attribute an even bigger disincentive in the location decision. In contrast, equality appears to encourage location
decisions in much the same way that law and order does. For instance, regulation is less of a disincentive for those ascribing to either law and order or equality as a political value. The lesson here is that real estate professionals with a clear understanding of the profile of the decision maker will be better positioned to bring in the buyer.

**Conclusion**

Concern about entrepreneurs’ and corporate executives’ venture location decisions has traditionally been considered the domain of public officials. However, our research suggests that there may be clear advantages for real estate professionals who understand more deeply the location decision process. By providing clients with valuable information about the socio-political attributes of the region and coupling them with an understanding of the values and characteristics of the individual decision maker, agents can establish themselves as advisors in the location decision process, thereby increasing the value created for all stakeholders.

**Recommended Reading**


**References**


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