

Location and Firm success
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Introduction:

A cluster is a geographically proximate group of interconnected companies and related institutions in a specific market, connected by commonalities and complementarities. For example the California wine cluster includes an extensive complement of supporting industries (such as California restaurant, food preparation and tourism industries) to both wine making and grape growing. The geographic scope of a cluster can range from a single city or state to a country or even a network of neighboring state or countries (Enright, 1993). While industry analysis generally include participants such as suppliers customers and distributors. Cluster analysis increases the scope considerably to include related industries as well associated institutions. Clusters usually consist of a combination of end product capital suppliers manufactures and service industry. It could also include a combination of high tech and traditional industries (Porter, 1998).

Some clusters consist mainly of small and medium size companies such as home furniture's clusters in North Carolina. Other clusters consist of both large and small companies such as the defense and aerospace cluster in southern California. Furthermore, some clusters center on research universities such as the micro electronics cluster in silicon valley of northern California around Stanford University (Advani, 1997). For purpose of this research three well known clusters will be investigated. These are, the Financial Services cluster located in New York City, the semi conductor cluster located in Silicon valley of northern California and in Phoenix, and the Pharmaceuticals cluster located in Pennsylvania and New Jersey. The purpose of this study is to examine the relationship between presence and absence of a company in its cluster on the financial performance of the company.

Theoretical Background:

A variety of literature stress that there are great benefit to begin by a company from its cluster location. The literature from urban economics focuses on influence of infrastructure, communications technology, input access, diverse industrial base, and available markets in concentrated urban areas (Harrison, Kelly, and Grant 1996; Nohria, 1992; Granovetter, 1985 and Burt, 1997). A number of studies in agglomeration economics found cluster benefits resulting from Geographic concentrations of firms in a specific field. Benefits such as input cost minimization, input specialization, and feasibility of forward and backward linkages (Lloyd and Dicken, 1997; Goldstein and Gronberg, 1984; and Storper,1997). The literature from management centers on the role of clusters on competition. Management studies conclude that clusters improve companies' competitive advantages in three important way: first, by increasing the productivity of member companies or industries; second, by enhancing their ability for innovation and third, by increasing new business formation (Harrison, Kelly, and Gant 1996; and Porter,1998).

The conclusion that one reaches from these literature review is, that firms geographically located within a cluster gain significant competitive advantages compare to firms who do not belong to a cluster. One should expect that competitive advantages to result in better financial performances for the cluster members compare to none members in the same industry. However none of the studies on clusters explicitly investigated financial performance. We suspect that a positive relationship between financial performance and membership in the cluster may not hold for all types of industries. For example, a company in the filmmaking and entertainment industry will be highly successful if it was located within the entertainment clusters in Hollywood and New York. In other type of industries (E.G., semiconductor industry), the influence of location on financial performance has diminished due to advances in information technology, logistics, and globalization of market. The PC industry was founded by pioneers companies such as Apple computers in the Silicon Valley in northern California. A well-established PC cluster emerged during that period. Over the course of the last twenty years more then three hundred companies competed in the Silicon Valley. However, as of now the most successful companies in the PC industry are located far from the Silicon Valley. The most successful companies are Dell computers located in Austin, Texas and Gateway Corporation located in South Dakota. This would imply that location in the context of clusters perhaps is not a valid requirement for superior performance.

Hypothesis and Methodology:

It is hypothesized that no positive relationship exists between location and financial performance. The research design is a longitudinal study over a period of three years. A sample of three hundred companies from three different industries with well-recognized clusters will be drawn from Dow Jones Interactive directory. The three industries are semiconductor, pharmaceuticals and financial services. The data of operating margins return on assets and return on equity will be collected for three years (1998,1999,2000) as measures of financial performance. The data analysis will consist of regression and correlation and factor analysis.

Results and Discussion:

The initial sample of 300 firms was reduced to 236 due to lack of data and /or unclear cluster identification. Information about sample Firms is provided below:

Industry	Located in the cluster	Located outside the cluster	Total
Semiconductor Industry	46	45	91
Pharmaceutical Industry	30	55	85
Financial services Industry	23	37	60

Performance data (dependent variables) were collected for three measures, (operating margin, return on assets and return on equity) for three years.

