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Entrepreneurship and crime: The case of new restaurant location decisions[☆]



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ABSTRACT

This paper examines the impact of various violent crimes on restaurant location decisions in a single city, Memphis, TN. Using location information on crimes and newly opened restaurants, we are able to match crimes and restaurants in parcels we construct. We examine the impact of the number of burglaries, assaults, rapes, and murders in each of 400 to up to 1,000,000 parcels occurring from 2009–2013 on the number of restaurants opening in 2014 in models including dummy variables capturing neighborhood effects. Regression results indicate that each crime is positively related to the number of new restaurants in a parcel. This suggests that even with the crime problem, these locations provide sufficient benefits, perhaps population density, which make them attractive to restaurant entrepreneurs.

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“‘Nobody ever robs restaurants,’ Tim Roth’s lowlife stick-up man famously wonders in the opening of [the movie] *Pulp Fiction*, citing the lack of security, disinterested and/or undocumented employees reluctant to play hero, and the sheer novelty of the prospect. ‘Why not? ... A lot of people come to restaurants.’ And, moments later, he puts his newfound plan into action.”

Moyer, 2015

1. Introduction

On the evening of August, 20, 2015, restaurant diners and staff members of the upscale New Orleans restaurant, Patois, were held at gunpoint and robbed by three men dressed in hoodies and wearing skull caps (Wells, 2015). The armed robbers forced the 15 patrons and five staff members, including the restaurant’s owner, to lie on the floor, while each person’s wallet or purse was collected and the money in the cash register was stolen. Unfortunately for the citizens of New Orleans and individuals who value the city as a tourist destination, the late summer scene at Patois appears to be the beginning of a trend, as another upscale restaurant, Atchafalaya Restaurant, was robbed on September 24, 2015, by two masked gunmen

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who appear to have repeated the scene one month earlier at Patois, which is less than three miles away (Moyer, 2015).¹ Four nights later, on September 28, 2015, the masked gunmen struck for a third time, robbing patrons and staff at Monkey Hill Bar, which is located only three blocks from the original target, Patois (Moyer, 2015).²

Episodes such as those described above serve to illustrate the point that crime often occurs in the vicinity of restaurants and in restaurant districts in American cities. Swann (2015), for example, reports on the September 2015 stabbing of four individuals outside of a pizza parlor in Syracuse, New York, while the sexual assault of a 10-year old girl near a Palmdale, California, restaurant in January of 2014 continues to haunt city officials, who recently renewed authorization of a \$20,000 reward for information leading to an arrest (City News Service, 2015).³ These episodes also highlight the sentiment in the epigraph above regarding actor Tim Roth's portrayal of a criminal in *Pulp Fiction*, depicting restaurants and their surroundings as hot spots for criminal activity. In that light, the present study examines the relationship between restaurant openings and crime in a single city – Memphis, Tennessee – from 2009 to 2014, using information on the locations of violent crimes (e.g., murders, rapes, burglaries and aggravated assaults) and the locations of newly-opened restaurants. Our statistical results suggest that new restaurants tend to open in parcels with historically higher crime, with elasticity estimates of the responsiveness of the number of new restaurant openings to past crime ranging, in one specification of our empirical model, from a low of about 0.01 for murder to a high of about 0.76 for burglary.

2. Prior literature: a brief review

The impact of crime on property values and flight to the suburbs has been the subject of a great deal of academic research, including work by Cullen and Levitt (1999), Glaeser and Sacerdote (1999), Burnham et al. (2004), Gibbons (2004), Linden and Rockoff (2008), Pope (2008), Ihlanfeldt and Mayock (2010), Bishop and Murphy (2011), Pope and Pope (2012), Congdon-Hohman (2013) and Caudill et al. (2015). In contrast, very little has been written about the impact of crime on business. Notable exceptions are the studies by Schwartz et al. (2003), Burnham et al. (2004), Greenbaum and Tita (2004), Abadie and Dermisi (2008) and Rosenthal and Ross (2010).

Using repeat sales and hedonic regression models on New York City data from 1988 to 1998, Schwartz et al. (2003) determine the extent to which lower crime rates led to the 1994 real estate boom. They find that about one-third of the post-1994 property price increase was due to falling crime rates. Similarly, using data on 318 U.S. counties from 1982 to 1997, Burnham et al. (2004) find that violent crime has a negative effect on economic growth in nearby suburbs, and a negative, but smaller effect on more distant suburbs. Greenbaum and Tita (2004) use zip code level data for five U.S. cities (from 1987 to 1994) to examine the impact of increases in crime on the creation, destruction and growth of business establishments. They find that increases in violence have the greatest impact on service-related establishments in low crime areas. Lastly, using building-level data from Chicago, Abadie and Dermisi (2008) investigate whether terrorism caused a decline in agglomeration economies in the post-9/11 period. They find a post-9/11 increase in vacancy rates in three of Chicago's largest buildings.

A more recent paper by Rosenthal and Ross (2010) examines the relationship between violent crime and business activity and, in particular, restaurant activity. In conducting their investigation of restaurant activity, these authors distinguish between high-end and low-end restaurants in order learn more about how the relative share of business activity, measured as either employment share or number-of-establishments share, is affected by violent crime. To do so, Rosenthal and Ross (2010) construct data sets that capture monthly census tract crime statistics for Atlanta (over the period 2004–2008), Chicago (over the period 2007–2008), Houston (over the period 2005–2008), Indianapolis (over the period 2006–2008) and Seattle (over the period 2003–2007). These statistics are matched with zip code-level information on business activity for the third quarter of 2007 to form a single, pooled data set.

Rosenthal and Ross (2010) treat crime and business activity as endogenous, where business activity is affected by crime, while crime is influenced by the level of business activity. More specifically, Rosenthal and Ross (2010) point out that retail and high-end restaurants not only react to crime, they also contribute to local crime by presenting criminals with attractive targets, even in the presence of an enhanced police presence in retail and restaurants districts. They find that both low- and high-end restaurants are all more active in areas with higher local rates of violent crime, a result that could be due to the idea that violent crime is attracted to urban restaurant districts, which describes the *hot spot effect* that is discussed elsewhere in the criminology literature (e.g., Sherman et al., 1989; Weisburd and Mazerolle, 2000; Braga and Bond, 2008; Braga and Weisburd, 2010; Sherman et al., 2014). Given that restaurant patrons are more likely to be potential victims of crime, particularly at night, there may be *hot spots* for individual crimes created by traffic around restaurant locations. The finding that both low- and high-end restaurants are all more active in areas with higher local rates of violent crime could also be due to the notion that other sectors of the economy (e.g. residential) outbid low- and high-end restaurant entrepreneurs for safer locations in the urban environment (Rosenthal and Ross, 2010).

The work of Rosenthal and Ross (2010) is consistent with earlier work by Bull and Winter (1991), which points out that in

¹ These robberies are somewhat similar to one that targeted Crema, an upscale restaurant in the Flatiron District of New York in September of 2014 (Parascandola and Sit, 2014).

² Monkey Hill Bar is described as upscale (Moyer, 2015), making it a target similar to those posed by Patois and Atchafalaya Restaurant.

³ The suspect in the sexual assault case is believed to be a local panhandler (City News Service, 2015).

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