

What Do Local Business People Really Think About the Importance of Tax Incentives, Infrastructure and Environmental Strengths to Economic Development

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Abstract: The downtown area of Hagerstown, Maryland needs significant revitalization. To address this, City officials proposed a unique incubator model that would house new ventures and provide services to existing businesses. Research on small business incubators has addressed success factors, trends, and economic outcomes related to start-up businesses. This paper advances that research by exploring attitudes towards the importance of city-provided incentives, local infrastructures, and local environmental attributes. In some attitudes, significant gender differences along with length of time in business were found.

Key words: incubator; small business; economic development; economic development incentives

JEL code: O1

1. Executive Summary

Small downtown areas have suffered over recent years so revitalization of these areas in the United States has become a serious and long-standing issue. An economic downturn and suburban growth have negatively impacted resources, businesses, and interest in the downtown as a shopping center and a social gathering place and left those areas vacant. A literature review reveals research about small town economic development issues, the role and types of incubators, success factors for incubators, trends for the future of incubators, and incubator outcome measurement methods. But, no research has addressed: (1) business community attitudes toward various incentives and local attributes available from a small city aggressively pursuing economic revitalization, (2) using incubators to revitalize specific geographic areas such as small downtowns and (3) the development of a cooperative incubator model that serves both existing and new businesses.

This study asked local businesses about attitudes toward the new incubator, specifically the effects on existing new and small businesses of various incentives offered by the city, such as: tax incentives, parking, signage, minority and women-owned business incentives; the importance of local area infrastructures; and, the importance of local area strengths such as: excellent highway and other transportation systems and portals, health care systems, educational offerings, and tourist attractions.

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Findings show differences by gender, age, and years in business. Additional variables such as general demographics and financing and funding needs and methods are explored. Those business owners who had been in business short and long periods of time were more apt to feel that tax incentives were important than did those owners in business for moderate periods of time. Minority and women-owned business incentives were thought to be more important to newer businesses, and those with few employees. Older business owners saw having excellent highway systems in the area as well as excellent health care systems as more important than did younger owners. Businesses open for shorter periods of time saw having an area with historically important resources as more important than did businesses open for longer periods of time.

Results of the study offer insights to City development officials in planning and offering city incentives to new and potential businesses. As well, understanding what infrastructures and environmental attributes are considered important will assist in recruiting new businesses for the downtown area of the City of Hagerstown.

2. Introduction

Revitalization of small downtown areas has long been an issue for business and government entities. Since the growth of suburbs starting in the 1950s, downtowns, particularly small downtowns, have gone into decline. Local governments have attempted to address these problems through a combination of incentives, infrastructure improvements, and focusing on the strengths of the local area.

This paper looks at the opinions of business owners/managers in a small community regarding what is important to them in sustaining and growing the local downtown area. This is part of a larger study of the impact creating a downtown incubator will have on the overall economic growth and development of the downtown area.

2.1 Hagerstown, Maryland

The City of Hagerstown, located in Washington County, Maryland is an example of a community that has suffered from the decline of downtown areas. Hagerstown's rich history goes back to the Revolutionary War. Williamsport, a small town outside Hagerstown was once considered by George Washington for the nation's capitol. Antietam Battlefield, located 10 miles outside downtown, was where the bloodiest battle in the Civil War occurred. The battlefield area is much like it was 150 years ago and is a magnet for Civil War buffs who reenact battle scenes there annually.

The Potomac River borders the county and serves as the boundary line between Maryland and West Virginia. The Appalachian Trail cuts through the county and attracts outdoors people from across the country. Once a major manufacturing location, Hagerstown is located at the juncture of I-70 and I-81, major transportation networks for the country.

As it is strategically located for commerce, Hagerstown was once called "Hub City", due to its centralized location in mid-Maryland and access to major routes east-west, and north-south. The county population is 147,430, of which 39,662 is within the city limits of Hagerstown. Washington County has experienced an 11.8% population growth over the past ten years, more than 2% greater than the State of Maryland.

Hagerstown's downtown has been in significant decline for better part of twenty years after the demise of several large manufacturing companies. Community officials and leaders have made significant efforts to revitalize downtown businesses through a variety of initiatives included under the Partners in Economic Progress (PEP) program. These incentives include a combination of grants, loans, tax credits, free services, operational assistance, and amenities. Many of the loans, grants, and tax incentives address the rehabilitation of old buildings

and historical properties in particular. In addition, grants for outside building aesthetics such as signage and façade enhancement are available along with special rates for upper floor rentals. The city will waive certain fees if the developed properties are in special economic zones. The city also offers free utility hookups for some properties along with free parking for a year if business owners qualify.

In order to facilitate business openings, Hagerstown promises fast track construction programs coupled with code flexibility and expedited paperwork processing. If a business intends to open in an historical building, the city will provide free consultation with an architectural historian to ensure compliance with state and federal laws related to such buildings. In 2006, the University System of Maryland (USM) renovated a large downtown building to house six state university programs. The USM at Hagerstown, along with an Arts and Entertainment District, is expected to play a big role in revitalization of the area.

However, businesses have continued to move out, three long-term businesses in 2012 alone, and the city continues to search for ways to redevelop and revitalize what was once a thriving downtown area.

3. Literature Review

3.1 Small Downtown Development Issues

The post WWII U.S. economy saw the movement of people out from the cities' downtown core for both working and living purposes. As the people moved out to the suburbs, so did the many businesses that served the daily needs of the population. In an attempt to draw businesses and customers back to the downtown area, local officials instituted a number of strategies focusing on downtown revitalization. Initially these strategies focused on trying to compete with the suburbs by tearing down old buildings; constructing new, more modern buildings; and improving automobile access and parking. When these actions proved largely unsuccessful, downtowns began to emphasize what made them unique from the suburbs: their local history, culture, and sense of community (Filion et al., 2004; Robertson, 1999).

The Main Street Program launched in 1977 to address the decline of downtown areas, "... encourage(d) economic development within the context of historic preservation" (Lawhead, 1995). This "sense of place" approach to revitalization grew out of an understanding that downtowns could not be mini-suburbs and be successful—they had to promote what made them unique and different. In a survey of small U.S. city planners in the late 1990s, Robertson (1999) found that implementation of the Main Street approach was thought to be the most successful strategy to revitalize downtown areas. However, this opinion was not universally held with many city planners indicating they found such strategies to be minimally successful in accomplishing revitalization objectives.

This "sense of place" approach, coupled with active Economic Development agencies that sought to make it convenient and economically feasible to locate in downtown areas, has led to some downtown revitalization success stories. These successes have been particularly noticeable in cities that have bodies of water, universities, state capitols or some historically significant events or structures (Filion et al., 2004; Smilor, 1987).

3.2 Incubators

The National Business Incubation Association (NBIA) defines business incubation as "a business support process that accelerates the successful development of start-up and fledgling companies by providing entrepreneurs with an array of targeted resources and services" ("NBIA", 2012). There are about 1200 business incubators in the U.S. (Hatch, 2010) and about 7000 worldwide (NBIA, 2009).

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Incubator Trends:

Table 1 discusses incubator trends.

Table 1 Trends in U.S. Business Incubation Development (1959 →Present)

Early Incubation Models	Current Models
Focus on space and operational services	Managerial advice, mentoring and networking important components of model.
Mixed use incubators predominate	Number of single segment incubators, particularly high tech incubators, increasing.
Government backing and support	More university involvement with incubators. More for profit incubators.
Single incubators	More regional and state networks of incubators.

Early business incubators primarily involved the provision of space and operational services to newly established businesses.

Such incubators were government supported and accepted all types of business entities. As the incubator movement matured, services were expanded to include managerial advice, mentoring and networking opportunities. In addition, single purpose incubators sprang up that focused on one business segment—high tech incubators being an example of this trend. And, while government remained the primary backer, more universities and for-profits began to open incubators.

Incubator Success Factors:

Success factors for business incubators generally fall into the categories of operational support, managerial support, networking and relationship development, and entrepreneurial education and training programs. Smilor (1987) listed success factors as on site business expertise, access to financing, in-kind financial support, community support, entrepreneurial networks, education, effective selection process for tenants, ties to a university, and clear milestones, policies and procedures.

3.3 Business Friendly Downtowns/Areas

A number of issues affect whether businesses will locate in certain geographic regions and whether they will succeed once they are established. These issues tend to fall into the following categories: government incentives, government regulations/red tape, costs of doing business, availability of skilled workforce, and infrastructure and environmental strengths of the chosen community. Community strengths include measurements related to population growth, household income, high school graduation rates, crime rates, cost of living, highway accessibility, historical significance, beautiful or unique topography, and education and healthcare availability.

The National Federation of Independent Business (NFIB) collects economic trends, performance data, priorities, problems, and issue data from its members on a regular basis. Consistently the most important issues or problems for small business owners have been costs, taxes, and regulations. Costs were identified as related to insurance, utilities, supplies, inventories, workers' compensation, and fixed costs in general. Tax issues included the level or amount of income and property taxes along with concerns about complexity and changes in tax laws. Regulation concerns were described as unreasonable requirements or requirements producing excessive paperwork. Also mentioned were availability of qualified workforce, sales, profits, and cash flow (NFIB Small Business Economic Trends, July 2012; NFIB Small Business Resource Guide for the 111th Congress, 2008, p. 19).

In an October 2011 Gallup poll small business owners expressed the most concern about being able to comply with government regulations. This was also a finding in Mattare et al. (2011), where micro-entrepreneurs identified complying with government regulations as a major issue. Other concerns included consumer confidence and demand, availability of credit, cash flow, healthcare policies, competition, and lack of jobs (Jacobe, Dennis,

“Government Regulations at Top of Small Business Owners’ Problem List”, Oct. 24, 2011, www.gallup.com/poll/150287).

A 2012 Wells Fargo survey taken in August indicated that business owners found that access to credit is becoming more difficult, leading to pessimism regarding revenue and cash flow and a planned decrease in capital investments into 2013 (Calvey, Mark, “Wells Fargo Survey Finds Small Business Owners Turn Pessimistic”, August 7, 2012, www.bizjournals.com).

Overall, the data above describes a business-friendly environment as one that pays attention to tax issues, regulations, licensing, and cost factors while at the same time emphasizing quality of life issues such as education, health, and low crime rates.

3.4 Maryland’s Business Friendly Environment

Many organizations, both governmental and non-profit, track a community’s responsiveness to business concerns and seek to develop what has been characterized as “business-friendly” environments. Maryland’s responsiveness to business has been graded by most of these organizations as in the middle of the pack or near the bottom: #31 by CNBC.com; #37 by chiefexecutive.net; #25 for ease of starting a business, and #31 for overall friendliness by Thumbtack.com and the Kauffman Foundation. Most of the criticisms of the state were over licensing requirements and regulations, particularly environmental, zoning and employment regulations. Maryland scored particularly well in the CNBC study in the areas of access to capital (#7) and education (#9). Its best score by Thumbtack.com and the Kauffman Foundation was a B+ in training programs. However, among women small business owners the state scored particularly high. Female business owners in the Thumbtack/Kauffman survey were 35% more likely than male business owners to say the state was supportive to very supportive of small business.

4. Research

A survey using Survey Monkey was sent to a list of 2200 downtown and local businesses in the city of Hagerstown, Maryland. The list was a compilation of Chamber of Commerce members and prospects, a small, in-house list, and the local SCORE chapter list of clients. The questions used were constructed based on feedback obtained in a focus group discussion with the downtown merchants to measure receptivity to a planned incubator in the downtown area. 77 usable responses for a response rate of 3.6% were obtained. The response rate falls within an acceptable, although low, range for surveys of this type (Fowler, 1998, 2002; Sue & Ritter, 2007)

The survey was exploratory in nature and sought to determine, in part, the following:

(1) Do local and downtown businesses feel that local incentives offered by the City of Hagerstown, such as signage/façade grants, excise tax exemptions, parking, rent, and redevelopment assistance are important in assisting new and small businesses?

(2) What local infrastructure strengths are important to these businesses (low utilities, abundance of water, excellent highway access, low taxes, excellent health care system, diverse education offerings, and jet access to the local airport)?

(3) What local environmental strengths are important to these businesses (location, low real estate, skilled workforce, historical resources for tourism, natural resources, quality of life, and outdoor recreation)?

Survey Demographics:

Table 2 presents the demographics of the study participants. The respondents were predominantly male

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(75.3%) and Caucasian (92%). Most had been operating their business for more than ten years (59%), were between 45-64 years of age (72.7%) and had sales of \$100,000-\$500,000 (60.8%). The majority of respondents have been able to obtain adequate financing (71.2%) for their business, and 73.6% supported the development of a city incubator. Half of the respondents employed from none to four employees. 20% employed 5-15 and 29.3% employed 16 or more. These demographics are similar to a recent study conducted in the State of Maryland that looked at variables about microenterprises (Mattare, Monahan, & Shah, 2009).

Table 2 Demographics

N = 77			
Gender	%	Sales	%
Female	24.7	0-100K	39.2
Male	75.3	100-1,000K	29.7
		> 1,000K	31.1
Ethnicity	%	Length of Time in Operation	%
Caucasian	92.0	0-3 years	21.8
Oriental	1.3	4-10 yrs	19.2
African-American	6.7	> 10 yrs	59.0
Other	5.1		
		Type of Business	%
Number of Employees	%	Professional (lawyer, etc.)	36.5
0-4	50.1	Manufacturing	8.5
5-15	20.0	Distributor/Wholesaler	3.4
16+	29.3	Retail	18.6
		Transportation (taxi, etc.)	1.7
Age	%	Finance/Insurance/Real Estate	13.6
0-44	20.8	Other	39.0
45-65+	79.2		

5. Findings

Respondents were asked to rate on a scale from 5 (high) to 1 (low) how important different types of incentives (Question 1), infrastructures (Question 2) and environmental factors (Question 3) were to the support of new and existing businesses.

For Question 1, responders rated the importance of different incentives offered by the City of Hagerstown for the operation of new businesses. The incentives are listed in Table 3, along with responders' total mean ratings for each incentive as well as the mean ratings for male and female participants.

Table 3 Mean Rating of Incentives Important to Business Development

N = 77			
Type of City Incentive	MeanFemale Rating	MeanMale Rating	MeanCombined Rating
Sign & Façade Grant	2.71	2.69	2.69
Excise Tax Exemption	2.69	3.07	2.96
PEP Incentives (taxes, parking, rent, redev.)	3.79	3.78	3.78
Minority/women owned	2.94	2.34	2.50
City Revolving Loan Funds	3.13	3.21	3.19

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Incentives programs were rated in the following order, from most to least important: PEP incentive programs, city revolving loan funds, excise tax exemption incentives, sign and façade grant incentives, and minority and women owned business incentives. There were no significant gender differences in the ratings of any of these incentives, all $ps > 0.05$.

For each question, we performed an exploratory analysis to determine if there were any differences in business owners' ratings of these incentive programs as a function of several of the demographic variables displayed in Table 2. Specifically, we looked for any differences in importance ratings for these incentives as a function of age of the business owner (young: 0-44 years old, old: 45 or older), length of time in business (short: 0-3 years, medium: 4-10 years; long: 10+ years), number of fulltime employees (few: 0-4 employees, moderate: 5-15 employees, many: 15+ employees), and sales (low: \$0-\$100,000, moderate: \$100,001-\$1,000,000, high: \$1,000,000+). When significant differences were found, LSD post-hoc tests were conducted to determine the source of the difference.

Significant differences were found for several of the incentives as a function of owners' length of time in business. There was a significant difference for the excise tax exemptions incentive, $F(2, 54) = 3.95$, $MSE = 1.32$, $p = 0.03$, with business owners who had been in operation for short (3.13) and long (3.19) periods of time rating this incentive as more important than those who had been in operation for a medium period of time (2.10). Another significant difference was found for the PEP incentives program, $F(2, 51) = 6.32$, $MSE = 1.00$, $p < 0.01$, with business owners who had been in operation for medium (4.10) and long (4.07) periods of time rating this incentive as more important than those who had been in operation for short periods of time (3.00). There was also a significant difference found for minority and women owned business incentives, $F(2, 57) = 4.05$, $MSE = 1.89$, $p = 0.023$, with business owners who had been in operation for short (3.19) periods of time rating this incentive as more important than those who had been in operation for long (2.03) periods of time.

A significant difference regarding minority and women owned business incentives was also found for the number of fulltime employees, $F(2, 55) = 3.48$, $MSE = 1.95$, $p = 0.04$. Specifically, those business owners with few fulltime employees (2.97) rated this incentive as more important than those who had many fulltime employees (1.88).

For Question 2, responders rated the importance of different infrastructures offered by the City of Hagerstown and Washington County for supporting new and existing businesses. The infrastructures are listed in Table 4, along with responders' total mean ratings for each infrastructure as well as the mean ratings for male and female participants.

Table 4 Rating of Local Infrastructure Attributes of Importance to New and Small Businesses

N = 77			
Infrastructure Type	Mean Female Rating	Mean Male Rating	Mean Combined Rating
Low utility costs	3.94	3.90	3.91
Abundance of water	2.94	3.16	3.10
Excellent highway access	4.11	3.75	3.85
Low local taxes	3.44	3.84	3.74
Airport that accommodates jets	3.11	2.57	2.71
Excellent health care system	3.56	3.80	3.74
Diverse educational offerings	4.56	3.67	3.90

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Infrastructures were rated in the following order, from most to least important: low utility costs, diverse educational offerings, excellent highway access, low local taxes, excellent health care system, abundance of water and an airport that accommodates jets. There was one significant gender difference: female business owners (4.56) rated diverse education offerings to be more important than male business owners (3.67), $t(68) = 2.49$, $SE = 0.35$, $p = 0.02$.

The same exploratory analysis was conducted to examine whether differences existed in business owners' ratings of these infrastructures as a function of their age, length of time in business, number of fulltime employees and sales. Significant differences were found for several of the infrastructures as a function of owners' age. A marginally significant difference was found for the importance of an excellent highway system, $t(69) = 1.69$, $SE = 0.42$, $p = 0.095$, as older business owners (4.02) rated the highway system as more important than younger business owners (3.31). Another marginally significant difference was found for the importance of an excellent health care system, $t(67) = 1.75$, $SE = 0.37$, $p = 0.09$, as older business owners (3.91) rated health care as more important than younger business owners (3.25). Finally, a significant difference was found for the importance of airports that accommodate jets, $t(66) = 3.58$, $SE = 0.36$, $p < 0.01$, as older business owners (3.06) rated such airports as more important than younger business owners (1.75).

A marginally significant difference was also found between length of time in business and diverse education offerings, $F(2, 68) = 2.91$, $MSE = 1.89$, $p = 0.06$. Specifically, business owners who had been in operation for short periods of time (4.56) rated diverse education offerings as more important than business owners who had been in operation for medium (3.50) and long (3.68) periods of time. Two significant differences were found regarding business owners' views on the importance of low taxes. The first difference was in regards to number of fulltime employees, $F(2, 63) = 3.69$, $MSE = 2.32$, $p = 0.03$, as those business owners with more fulltime employees (4.58) rated low taxes as more important than those with few fulltime employees (3.41). The second difference was in regards to sales, $F(2, 63) = 6.88$, $MSE = 2.08$, $p < 0.01$, as those business owners with high sales (4.71) rated low taxes as more important than those with low (3.72) or moderate (3.05) sales.

Finally, for Question 3, responders rated the importance of different environmental factors that the City of Hagerstown and Washington County have for supporting new and existing businesses. The environmental factors are listed in Table 5, along with responders' total mean ratings for each infrastructure as well as the mean ratings for male and female participants.

**Table 5 Rating of the Importance of Environmental Strengths of the City and County that
Support New and Existing Businesses**

N = 77			
Environmental Strengths	Mean Female Rating	Mean Male Rating	Mean Combined Rating
Location	4.41	4.29	4.32
Low real estate costs	4.11	4.10	4.10
Skilled workforce/good work ethics	4.11	4.17	4.16
Historical resources (tourist attractions)	4.00	3.27	3.46
Natural resources	3.94	3.17	3.37
Quality of life (low crime, artists' community)	4.61	4.31	4.39
Outdoor recreation	3.78	3.85	3.83

Environmental factors were rated in the following order, from most to least important: quality of life, location, skilled workforce/good work ethics, low real estate costs, outdoor recreation, historical resources, and natural

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resources. There were two significant gender differences: female business owners (4.00) rated historical resources to be more important than male business owners (3.27), $t(67) = 2.33$, $SE = 0.31$, $p = 0.02$, and female business owners (3.94) rated natural resources to be more important than male business owners (3.17), $t(68) = 2.56$, $SE = 0.30$, $p = 0.01$.

When asked, business owners indicated they were satisfied with the available workforce as outlined in Table 6 below.

Table 6 Workforce Satisfaction

N=77	
Are You Satisfied with Available Workforce?	%
Agree	49.4
Disagree	26.0
Neutral	18.5
No Answer	6.1

The same exploratory analysis revealed one significance difference between length of time in business and the importance of historical resources, $F(2, 66) = 2.72$, $MSE = 1.30$, $p = .07$. Specifically, business owners who had been in operation for short periods of time (4.07) rated historical resources as more important than those who had been in business for long periods of time (3.27).

6. Conclusion and Implications

A small, economically challenged city, in the process of jump-starting its economy by fostering new businesses in a downtown City-run incubator, surveyed local merchants and downtown businesses to determine attitudes regarding business development incentives offered by the city, and how important infrastructure and environmental strengths associated with the city were to the future health and well-being of the businesses.

This effort to include interested stakeholders in the decision process supports the Main Street approach to downtown revitalization which, among other strategies, emphasizes the need for strong cooperation among individuals and groups who have an interest in downtown development (Lawhead, 1995). The seeking and inclusion of business owners' perspectives also supports the "sense of place" approach to revitalization found in prior studies (Filion et al., 2004; Lawhead, 1995; Robertson, 1999).

Results showed that business owners rated as important certain environmental issues that the community of Hagerstown scores well on including location, quality of life, and a skilled workforce (see Table 5). The respondents also highlighted the importance of diverse educational offerings which are offered downtown through the University System of Maryland. The respondents did not score historical resources that highly in terms of local importance. Also, economic incentives did not score as highly. It is assumed that the respondents did not perceive that the city was as helpful as it could be in this area, which may be a function of misinformation or may reflect the low ratings that the state receives overall as a "business-friendly" environment.

Overall, the City of Hagerstown seems to have significant strengths with its location, highway system, educational offerings, and workforce quality. The City offers a significant number of tax, loan, and grant incentives which were not ranked very highly by survey respondents. The historical significance of the city and its surrounding area was not considered a strength by respondents even though other cities have been able to parley such history into significant economic development.

6.1 So What

The City and the downtown business community provide opportunities so that Hagerstown can attract and retain new and small businesses and eventually revitalize the downtown area. Now, with the data collected and analyzed from this study, the City has the opportunity to logically and carefully rebuild the City's new business development system so that new, incubating businesses will understand and utilize the incentives programs and capitalize on the infrastructure and environmental strengths that have been shown to have positive effects on business development and well-being.

The importance of conducting a survey such as the one discussed in this paper is that it provides an understanding of the needs and desires of the current local business community, especially one challenged by a regional downturn and poor economic conditions. There is a fair amount of data available regarding incubator performance and the linkage to business success. It will be important to conduct longer range research to determine the linkage between incentives, attractive infrastructure, and environmental strengths and actual incubator tenants chosen and their performance over time in relation to the City business community. In other words, understanding the impact of these new businesses nurtured in the City incubator on the whole community and vice versa is of great importance to business development and the economic health of our small cities.

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