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## Entrepreneurial Firms and Incentives: Pre-COVID-19 Landscape and Pandemic Recovery Responses

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# Entrepreneurial Firms and Incentives

## *Pre-COVID-19 Landscape and Pandemic Recovery Responses*

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DARRENE HACKLER, Ph.D.

*National Economic Conference on Inclusive  
Economic Development and Recovery*

May 6, 2022



# Incentives for Entrepreneurial Firms

\*Report and \*Technical Appendix

August 2021

## Entrepreneurship after COVID-19: How Can State and Local Business Incentives Support an Equitable Recovery?

Forthcoming, Spring 2022

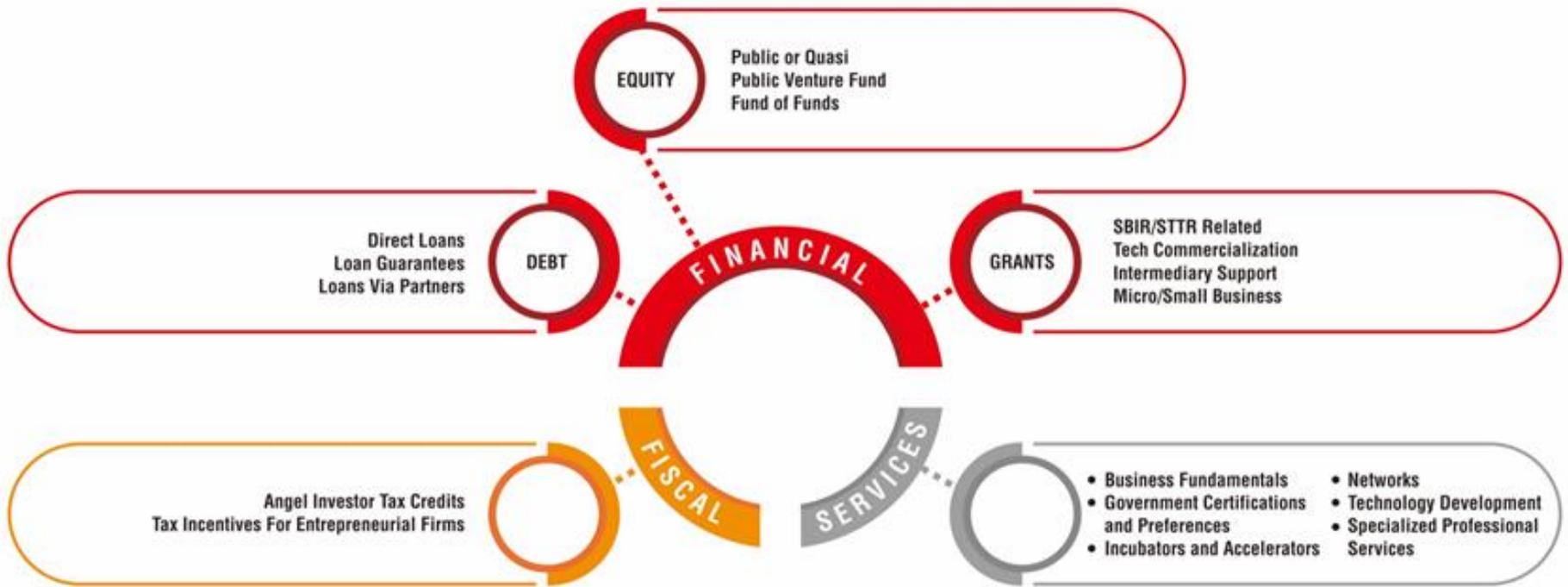
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Ellen Harpel, PhD



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# Incentives for Entrepreneurial Firms



# Insights on the Effectiveness of Incentives Pre-COVID 19

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## Financial

- Small business **lending** programs *can be effective*, but most are *too small* to have substantial community- or firm-level impacts.
- Despite *risks associated with public funds for private equity investment*, it remains a *popular strategy*.
- **Grants** appear to have *positive firm-level effects*, including employment and sales growth.

## Fiscal

- **Angel investor tax credits** appear to have *positive but limited firm and community impacts*; however, the research is not definitive.
- **Tax incentives** are *not the best method* of helping entrepreneurial firms because these businesses tend to have little tax liability.

## Services (Technical Assistance, Incubators/Accelerators)

- **Services** to entrepreneurial firms appear to *generate positive firm-level outcomes* but it is *not clear which type of services are most valuable at which stage/phase of business*.

# COVID-19 Response for Small Business and Entrepreneurial Firms

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\$1.3 trillion for financial assistance to small business with some options for entrepreneurial firms.

- 4 federal economic stimulus bills funded 12 programs.

## Financial

- Low-interest loans and grant programs helped those with less access to traditional banking institutions and seeded Community Development Financial Institutions.
- Federal State Small Business Credit Initiative close to \$1.2 billion possible for CA.

## Fiscal

- Temporary tax relief benefited businesses depending on the state and local tax structures.

## Services and Technical Assistance

- Support and assistance to business attempted to make business owners aware of funding options and help them complete applications.
- Digital skills, market intelligence finding a new niche and to retain customers and find new customers.

# Business Incentives Insights

*Pre-COVID-19  
Incentives*

*Relief &  
Recovery  
Responses*

- ✓ Increase Effectiveness
- ✓ Embed Equity
- ✓ Enhance Reporting

# Increase Effectiveness

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Ensure a policy goal must drive incentive design, implementation, administration, data collection, and reporting.

- Which entrepreneurial/startup problems do the research and data indicate that an incentive program can address?
- What is the equity dimension and what is driving the disparities?

Address program structure.

- Ensure budget, amount of incentive/assistance, timing, and the mechanism used can attain the goal/outcome.
- Active program management and improved new data collection and tracking systems (use, costs, outcomes) increase effectiveness and limit risk.
- Don't inadvertently narrow eligibility and limit participation by making the paperwork onerous. Does the application fit the amount of assistance?

# Embed Equity

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Pandemic inequitable impact advances an *equity dimension*.

Incentives can help embed sustainable equitable economic development practices and programs.

- Equity and inclusion goals and metrics complement economic growth objectives and increase economic prosperity for both historically marginalized populations and the whole economy.
  - Embed equity metrics into program reporting for all contracting and fund disbursements, e.g. technical assistance and support organizations.
- Prioritize investment that benefits underserved, distressed locations and the people living in those communities, particularly those that suffered greater COVID-19 impacts.
- Create programs and deliver culturally competent outreach and marketing that incorporate program input and feedback from a diversity of entrepreneurs (race, gender, location, industry, business stage, etc.).

# Enhance Reporting

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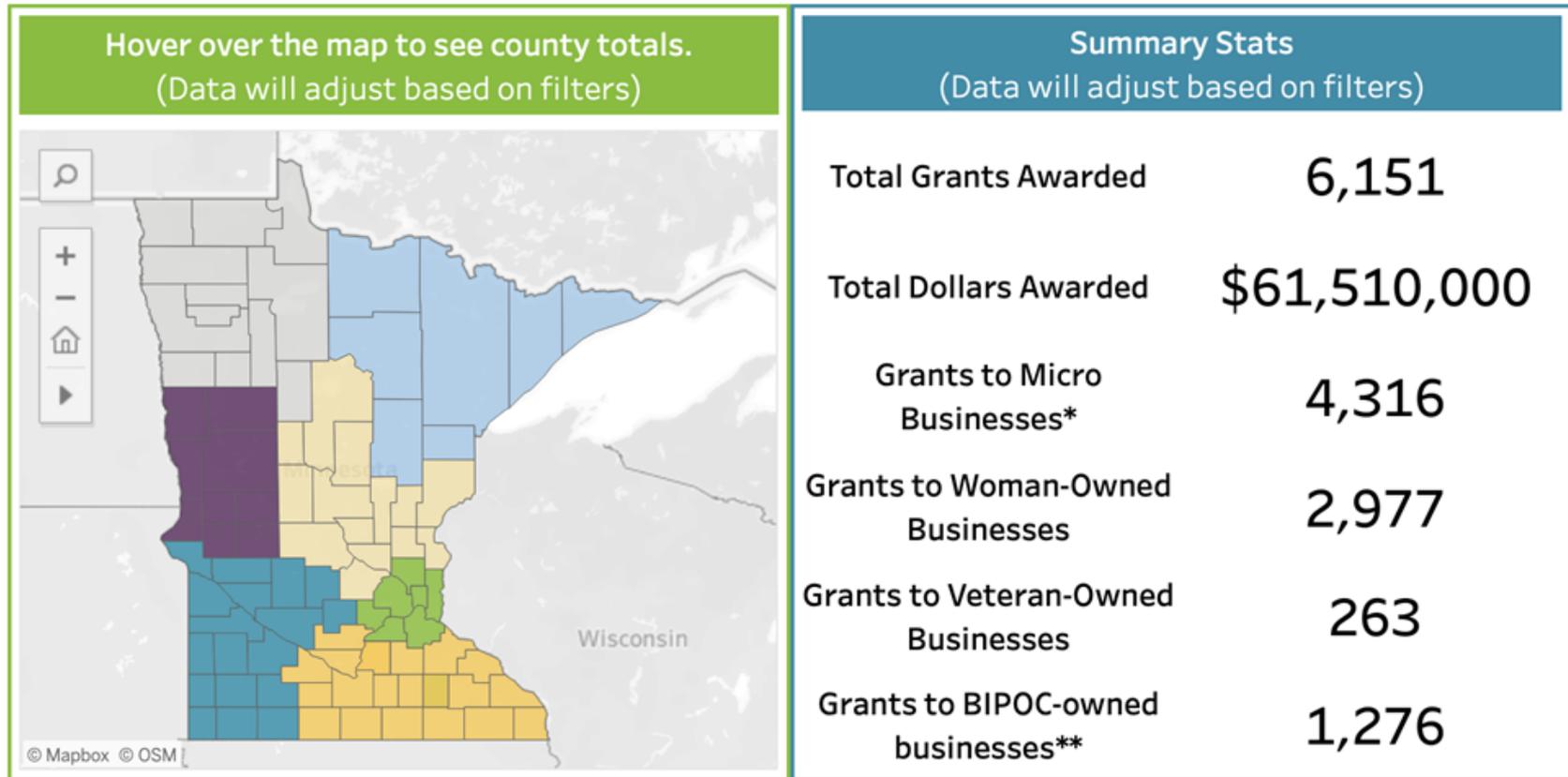
Transparency of the distribution of funds is not robust. Absent reporting guidance on equity sustains inequitable structural processes.

- Make the data available on program applicants and funding distribution to assess whether targeted firms were reached.
- Create metrics and track recipients to evaluate the impacts of incentives.

Absent reporting guidance on equity sustains inequitable structural processes.

- Include demographic requirement **AND** address the structural issues that impact equity implicit biases in decision structures.
- Identify the “just right” metrics **AND** ensure that business reporting is not overly burdensome.
- Provide meaningful short-term analyses and comparisons to identify program modifications to improve assistance, reach targeted businesses, **AND** increase business survival.

# Minnesota Small Business Relief Program Grant



**Note on business type definitions:**

\* Micro businesses are defined as those having 6 or fewer employees.

\*\* BIPOC-owned businesses are those whose owners identify as Black, Indigenous or a Person of Color (BIPOC).

# About Smart Incentives

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We help communities make sound decisions throughout the incentives process to achieve our community's economic development goals.

- ✓ Analyze incentive offerings and program design.
- ✓ Apply the Smart Incentives 4x4 framework for program management.
- ✓ Offer access to high-quality business intelligence, data, and analytical methods to guide decisions.
- ✓ Improve evaluations and reporting on program results.

# Contact

**Thank you for your interest in this work.**

For full documentation of sources, data samples, methods, and interpretations, please see:

*Incentives for Entrepreneurial Firms* [Report](#) and [Technical Appendix](#)

*Entrepreneurship after COVID-19: How Can State and Local Business Incentives Support an Equitable Recovery?*

(Forthcoming, Spring 2022)

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