

## **Does Location Matter? Impact of Local Government Policies and Incentives on Entrepreneurship**

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**Abstract.** One approach to help improve local job market is to attract startup companies from outside the region. However, regional and local policy obstacles and regulation's ambiguities at all levels often hamper entrepreneurs. The goal of this study is to evaluate the differences between local government's policies, incentives and information infrastructures and their impact on entrepreneurial activities. We employed a phenomenological study with surveys of the directors of economic development department in five neighboring cities in Southern California in USA. The result of this empirical study indicates that there are different incentives and policies in different cities that entrepreneurs need to be aware to take advantage of. In addition, we also found the interesting fact that the cities also collaborate with each other to make the entire region more competitive against other regions.

**Keywords:** entrepreneurship, international business, global competition, local government, location, incentives, public information systems, competition, collaboration.

### **1. Introduction**

The goal of this study is to evaluate the differences of local government's incentives and policies for startup companies and their impact on these companies. One approach to help improve job market is to encourage and attract entrepreneurial activities from different places to provide employment opportunities. However, aspiring entrepreneurs are often hampered by policy obstacles and regulation's ambiguities due to lack of resources for professional assistance and financial support. This is especially the case when the entrepreneurs are foreign to the locations. To start new businesses, they have to study various complicated government business regulations and visit multiple agencies to obtain permits and licenses, pay fees, prove insurance, verify certifications, conform to labor and health code, and etc. If they plan to provide contract services to local or state government, more compliances and screenings will be required in the United States. To make things worse, different cities and towns have different requirements and procedures in addition to those required by the state. Opening the same business in different cities often means going through different applications processes and meet different requirements unique to cities where the applications are filed. This create extra burden on the entrepreneurs to assess the feasibilities of doing business in different municipalities. In addition, some cities offer incentives to encourage entrepreneurs to invest in their region. However, obtaining the information and taking advantage of the incentives can be challenging for some entrepreneurs.

A business actively study the differences between country choose their locations. Toyota Motor Corp, the world's biggest automaker, is going to move production of its popular Corolla cars to a new factory in Mexico from Canada to benefit from lower costs in 2015 [5]. In addition, a business may also need to study and compare states within a country for their business locations. Interestingly the same company, Toyota, moved its U.S. sales and administrative arms in California to Texas in 2014 [1]. Some of the reasons given are adversary business climate, high tax rates and complex taxing schemes, overzealous regulations stifled

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the entrepreneurial energy. This study will focus on revealing the differing policies and incentives for startups in different municipalities. It will also evaluate the level of readiness of public information systems in helping entrepreneurs manage these complexities and obtain license and take advantage of incentives. The data will be obtained through surveys detailed in the following section. There have been many researches on the relationship between government policies and the entrepreneurship/small business activities in different countries [4, 8]. However, few focus on local policies, incentives and information infrastructures and their impact on startups. We believe that we are among the first to study this relationship.

## **2. The Exploratory Study**

### **2.1. The problem**

This study focus on the relationship between municipalities and entrepreneurs. As an exploratory study, there are many questions we are asking: Are there substantial differences between cities in terms of incentives and policies to foster entrepreneurship? Are there public personals and resources dedicated to the task and do they make a difference when it comes to attract and keep startup companies? Do city officials think their cities are different from others and offering different opportunities? Are city's public information systems adequacy in providing guidance for startup companies and disseminate policy and incentive information? To answer these questions, we employed a phenomenological study with surveys of the directors of economic development department in five neighboring cities in southern California. The choice was based on Creswell's (1998) work [3], which details five approaches or traditions for qualitative inquiry. The phenomenological approach is an attempt to understand empirical matters from the perspective of those being studied. By exploring individuals' experiences with money and the stories that evolve, a better understanding can be achieved as to the relationship between city and entrepreneurship. Phenomenological analysis requires the researcher to state his or her assumptions regarding the phenomenon under investigation and then bracket or suspend these preconceptions in order to fully understand the experience of the subject. While no two cities will have identical relationships with potential startups, due to the variability in their location and demographics, it is assumed that there is an essential structure in the relationship that can be extracted from the verbal descriptions of the individuals. This essential structure of the relationship can be identified by the commonalities among the descriptions by the participants.

### **2.2. The design**

The goal of this project was to identify if there are differing policies, incentives and information dissemination practice that impact entrepreneurial activities. According to Polkinghorne (1989) the appropriate number of interviews for this technique is 5 to 25 [7]. We identified and interviewed all the Directors of Economic Development in five cities along 78 corridor in San Diego in USA: Carlsbad, Escondido, Oceanside, San Marcos, and Vista. Each interviewee was to give a complete description of objectives of the study and was interviewed using questions in Appendix 1. With the interviewees' consent, tape recordings were made of all interviews. Questions were asked by the researcher to direct the comments towards different aspects of entrepreneurship activities, city policy, incentives and information systems. The length of the interviews ranged from half to one hour. The raw data, as recorded, were transcribed verbatim for each interviewee. These transcriptions were then subjected to phenomenological analysis. The procedural steps used were based on the work of Colaizzi (1978) [2], Polkinghorne (1989) [7] and Moustakas (1994) [6].

While there are variations in the actual steps used, most phenomenological researchers recommend four general steps. These include: horizontalization, clusters of meanings, textural description, and structural description. This protocol requires that relevant statements are taken from the individual interviews. The statements are divided by concept, then transformed into clusters of meanings expressed in conceptual terms. The transformations are tied together in general descriptions and contextualized.

After extracting all significant statements from the transcripts, we eliminated all duplicate statements. The significant statements or phrases grouped into three categories are presented in Table 1.

**Table 1 City’s Significant Statements on Entrepreneurship and Information Systems to Support Entrepreneurs**

| Startup Activities  | Location Choice  | Government Information Systems   |
|---|--|--|
| <ol style="list-style-type: none"> <li>1. Significant increase in both business tax and licenses</li> <li>2. Significant increase city’s outreach to potential startups</li> <li>3. Variety of incentives for new businesses offered by cities</li> <li>4. Ease of issuing permit</li> <li>5. Streamlining the process</li> <li>6. Do have certain hoops you have to jump through</li> <li>7. ‘One stop shop’</li> <li>8. Staff and resources is limited</li> </ol> | <ol style="list-style-type: none"> <li>1. Benchmark against neighboring cities</li> <li>2. Don't think we necessarily do anything different than any other city</li> <li>3. Our city don't offer incentives</li> <li>4. We offer many incentives to attract potential business</li> <li>5. “Business concierge”</li> <li>6. We have incubator for startups</li> <li>7. We offer expedited review times of business license</li> <li>8. We go after the businesses that will fit our profile</li> <li>9. We will be differentiating ourselves from the rest of San Diego county</li> <li>10. “Region first, city second.”</li> <li>11. Branding effort going on along the 78 corridor</li> <li>12. Have an agreement and code of conduct</li> </ol> | <ol style="list-style-type: none"> <li>1. Systems are under a major renovation</li> <li>2. Looking to expand coverage in the systems</li> <li>3. We will be updating our information</li> <li>4. Information is outdated</li> <li>5. We're always adding information to website</li> <li>6. Never be stagnant</li> <li>7. No functional services yet</li> <li>8. Have a limited amount of online services</li> <li>9. I don't know what our IT department does for that.</li> <li>10. We do benchmark our website against others</li> <li>11. Information as a whole needs to be improved for business</li> <li>12. I think there's always room for improvement</li> </ol> |

The meanings were formulated from the significant statements and are presented in Table 2. These were derived at by rereading the statements in the individual transcripts and reflecting upon the context to conclude a meaning. The aggregate of formulated meanings was organized into clusters of themes. These clusters represent themes that have emerged from and are common to all of the subjects’ descriptions. The clusters are presented in Table 3. These clusters were referred back to the original descriptions in order to validate them. A description of the relationship was produced by the integration of the results of the analysis. The description of the relationship is a statement of its essential structure. An exhaustive description is presented in Table. 4.

**Table 2 Formulated Meanings of Significant Statements**

| Startup experience in general   | Location choice   | government information systems  |
|---|---|---|
| <ol style="list-style-type: none"> <li>1. There have been significant increases in entrepreneurship activities in all cities.</li> <li>2. All cities have been increasing effort and resources to help entrepreneurs.</li> <li>3. Some cities have far more incentives for new business than others.</li> <li>4. Some cities think their processes of approving small business are more streamlined while others suggests that there are still hurdles and challenges facing startups.</li> </ol> | <ol style="list-style-type: none"> <li>1. All cities benchmark against other cities.</li> <li>2. Some cities may offer extra help to obtain permit for startups.</li> <li>3. Some cities perform duty as 'business concierge'</li> <li>4. Some offer Incubator services.</li> <li>5. Some offer incentives while others do not.</li> <li>6. All cities collaborate to project a positive image for the entire region to compete with cites from other areas.</li> </ol> | <ol style="list-style-type: none"> <li>1. All cities benchmark their websites against others.</li> <li>2. All agree that their information systems need to be improved for business.</li> <li>3. All cities think a good information systems can help entrepreneurs to smoothly interact with the government.</li> <li>4. Most cities have only limited functional services online</li> <li>5. Some cities suggest that there were lacks of communication between information owner and IT department.</li> </ol> |

**Table 3 Clusters of Common Themes**

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|--|
| <p><b>Competition:</b></p> <p>Cities are aware of the fast development of local economy and in particular, the number of startups. They are benchmarking against each other.</p> <p>Some cities strive to remain competitive by offering various financial or non-financial incentives and</p> |
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guidance to entrepreneurs.

All strive to streamline the business application and permit issuance process to make it easy for entrepreneurs to get started with their business.

All believe that they offer more, better and unique services than their competitors in the region.

**Improvement:**

Directors of Economic Development of all five cities believe that their information systems can be improved for better communication with and dissemination of information to entrepreneurs.

They recognize that the lack of services functions is an inconvenience to entrepreneurs.

Some suggest that they should work more closely with IT department to improve information systems.

**Collaboration:**

All cities in the region believe that collaboration among the city can strengthen the competitiveness of the region against other regions.

All cities are working together on a branding project to project a positive image of the entire region to outside world.

**Table 4 Description of the Relationship between City and Entrepreneurs**

To help startup companies get started, every city is focusing on making its own city a better location for the startups to choose compared with other cities in the region. The efforts range from offering personalized assistance, promotion, use of land and facilities at reduced rate, and financial assistance. They all believe that their information systems can help them become more competitive in this process. On the other hand, they all realize that the region is facing competitions from other regions for startups and as a result they also work together to make the region more competitive.

**3. Conclusions and Future Expansion**

The result of this empirical study indicates that there are different incentives and policies from different municipalities to help entrepreneurs from different places. However, whether the difference can be appreciated by entrepreneurs as part of factors to decide which city to locate their business is yet to be seen. All cities under study believe that their information systems need improvement and could help them to become more competitive in this process. Some of the frustrations are the result of a lack of communication between IT department and information owner, the Economic Development department. As a result, a closer collaboration between the two is highly recommended.

On the other hand, they all realize that the region is facing competitions from other regions for new business and as a result they also collaborate to make the entire region more competitive against other regions. The reason given is that if a startup decides to locate in one of the five cities, it will not only benefit the chosen city directly but also help the cities nearby through housing, employment, and consumptions. As a result, the five cities decided that by collaborating together, they have a better chance of keeping a startup in the region instead of losing it to other regions.

In our future research, we will conduct interviews with entrepreneurs from various industries in each city. This will allow us to learn the relationship between entrepreneurs and government from different perspectives. This will also allow us to answer the question if there is any discrepancy between the perceived opportunities by entrepreneur and what the city is actually offering. Furthermore, the websites of each of the five cities will also analyzed to compare and contrast the cities' information systems to learn how well they perform and if they perform as the cities and entrepreneurs suggest.

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## Appendix 1

Introduction: this interview concerns your thoughts and understanding of city's support for entrepreneurship.

### Part I Startup experience in general

1. Have you seen an increase or decrease in startup company applications in your city recently (5 years)
2. Do you have polices and activities that actively encourage startup companies? Are they industry specific, such as child care, food, high tech?
3. On a scale of 1 to 10 with a 10 being extremely difficult, how difficult was the process of approving a business with all licensing and permit requirement in your city? Do they differ greatly across industries?
4. Are there any collaborative efforts between the cities?

### Part II Location Choice

5. When it comes to business polices for startups, do you actively engage in benchmarking against other cities?
6. Do you actively differ yourself from other local cities by offering more incentives, favorable policies or procedures to attract startup companies? If so, can you give us a few examples?

### Part III Government information systems

7. Do you put much the information to get a business started online? If not, are you planning to put them on line?
8. Do you offer functional services online, such as registering for business, obtaining permits and paying tax? If not, will they be offered online in the future? If not in the future, can you give us some reasons?
9. Have you checked with your peer cities to compare what you offer online and what they offer online? If so, do you feel you offer more and better information and services online than others?
10. Do you think in general a local government online services should be improved significantly to meet business need?