The Efficacy of the Use of Business Incubators for Economic Development

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Abstract: This paper is part of an historical analysis of the last 25 plus years of research papers on business incubation. The present paper covers the history of business incubators; their use in economic development; and the measurement of the outcomes of that use and the controversy related to that measurement. Incubators can be used to both overcome local inertia to new business development, as well as to focus communities on their strengths to support new economic development activities. While technology based incubators have produced the highest returns, many incubators exist that support community development in areas outside of high tech. Their sine qua non was new firm creation and economic enhancement of the region they were sited within. Financial viability of the incubator program was not. Clusters, a hot research and development topic, are being linked to incubators in a number of current research papers. In addition to the historical review, the authors posit that subscribing to capital markets theory might result in enhanced outcomes of what incubators could have done for a community. As incubators are simply another form of economic intervention, could the funds for incubator development and operations simply be used for seed and venture capital? This would allow the capital to flow to the highest rates of return, lowest risk ventures, perhaps attracting better firms faster, thus creating more jobs, more taxes, etc. Is an incubator without walls sufficient for a community, utilizing public/private/education consortiums in a network to supply the needed management assistance, thus replacing the incubator “with walls” with one “without walls?” Heretical in light of all the incubator developments, but worthy of consideration nonetheless. And while “beauty is truth and truth beauty,” all you might need to know on this subject might be capital markets theory.