

## **Good Practice**

There are many different types of business incubator, but all share many common characteristics and good practices. Success with development of a new incubator is a function of adapting good practices to a particular situation, culture and objectives.

## **Objective**

This article gives an introduction to business incubation globally and global good practices.

## **A brief introduction to Business Incubation**

Business incubation emerged as an economic development tool in the early and mid 1980s, initially in the USA and Europe, subsequently spreading around the world. Today, observers and the 'global business incubation community' estimate about 5,000 business incubators in the world, depending on definitions and without accurate 'audit' data, of which at least 1,000 are in Asia (approximately half in China), 1,000 in North America, 900 in Europe and close to 400 in Latin America (with a sizeable and robust industry in Brazil).

It is widely recognized throughout the 'global business incubation community' and by stakeholders, that business incubation is challenging and a key element in both economic and social development. Indeed, the ex-President of China, Jiang Zemin, acclaimed business incubation as:

*"The most important creation of sci-tech industrialization in the 20th century"<sup>1</sup>.*

By its very nature it is, primarily, an organic and flexible process that can be effective in both 'physical', outreach and virtual (or on line) environments. Concepts from across the globe vary, but the UKBI definition is typical and captures the core elements:

*"a unique and highly flexible combination of business development processes, infrastructure and people, designed to nurture and grow new and small businesses by supporting them through the early stages of development and change"<sup>2</sup>*

## **Stages of Business Incubation**

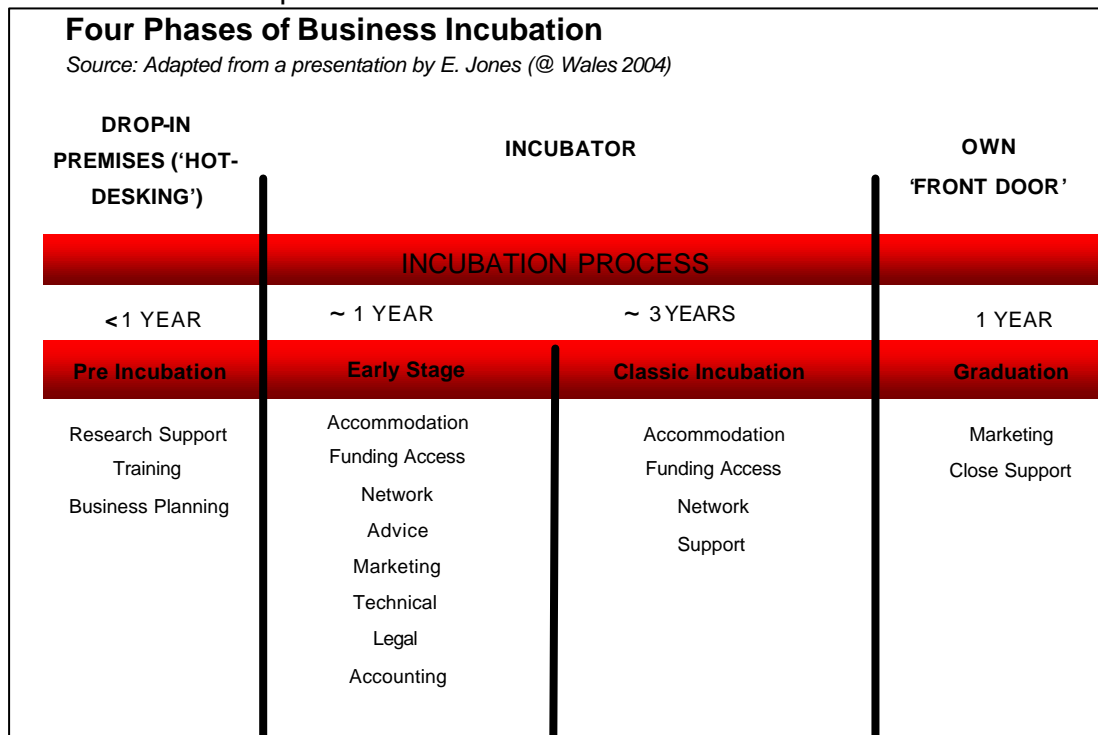
Traditional business incubation involves a number of key and potentially overlapping and flexible stages, designed to underpin the growth of clients at

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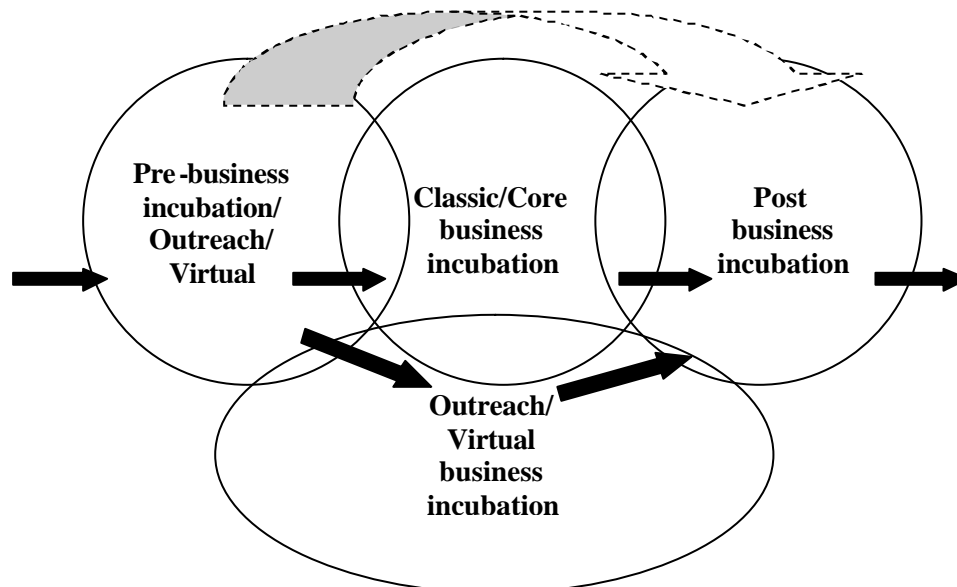
<sup>1</sup> Chinese Ministry of Science and Technology TORCH Program, accessed from [http://www.stepti.re.kr/upload/rd\\_joint/china%20%BF%F8%B0%ED1.doc](http://www.stepti.re.kr/upload/rd_joint/china%20%BF%F8%B0%ED1.doc)

<sup>2</sup> [www.ukbi.co.uk](http://www.ukbi.co.uk) Additional examples of definitions form around the world are at Appendix 1.

various stages of their development. The following diagram breaks business incubation into four phases.



With these four stages, accommodation is an important element in the incubation process. However, the incubation process can be delivered by way of outreach and virtual business incubation, as shown in the following diagram.



These stages need to be recognized and ‘accommodated’ in order to maximize the flow of innovation and entrepreneurs toward success. At each of these stages, different techniques are employed and integrated. For many businesses, the intense and selective Classic/Core Business Incubation environments (business incubator) will not be appropriate, as many businesses will move straight from ‘Pre-Business Incubation or Outreach or Virtual Business Incubation to ‘Post Business Incubation’. Furthermore, there may be only minimal demand for classic core incubation, whereas there may be far more demand for virtual, outreach or pre-business incubation services, or the services provided by models such as Busy Internet in Ghana.

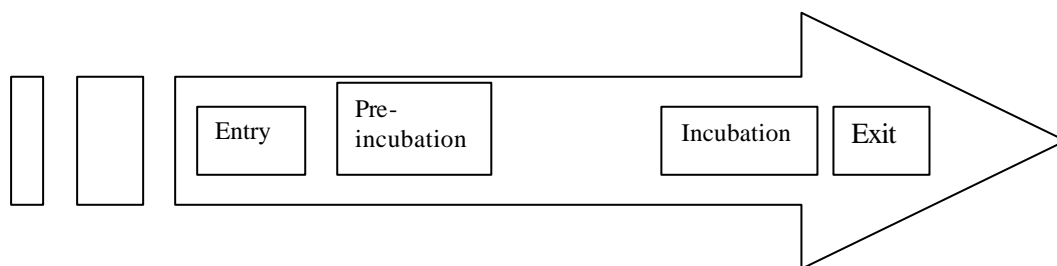
In these diagrams pre-business incubation, outreach and virtual services are considered as a step along the road to classic core incubation. This is commonly the case, but these ‘shallow and broad’ services have value in their own right – see above. A good example is Busy Internet in Ghana where classic core incubation is not appropriate at the moment and in which services have been designed to meet the current demand for ICT and business services.

### **Key Elements**

Traditional business incubation involves a number of crucial and necessary elements, which are summarized here before consideration of how incubation has changed in its adaptation to developing countries.

#### *Entry/Selection and Exit/Graduation’*

Incubation takes clients through a process from developing preliminary ideas, concepts and plans (pre-incubation) to developing the business (incubation) and finally leaving the incubation program as robust firms (exit or graduation).



A resource-intensive activity like core business incubation is by necessity selective and not for any or all businesses. It is vital that proposals from prospective clients are assessed and only those that will benefit from and meet the objectives of the business incubation environment and its stakeholders are selected. The entry or selection policy will differ from one island to another, depending on the circumstances and the wider economic and social objectives.

Business incubation is about 'hands-on support' not 'life support' and so the overriding aim should be to move clients to a point where they are no longer dependent on the services of the business incubation environments or when business incubation can no longer help them.

As with selection, the exit terms and strategy should fit the business incubation environment's objectives, as well as taking into consideration the type and profile of clients being supported. Whilst it is important to operate a clearly defined exit strategy, a degree of flexibility is essential as businesses will not all grow at the same rate. The issue of appropriate 'grow-on' space (post incubation) needs to be addressed in order to discourage the businesses from leaving the area.

#### *Outreach and Virtual*

In order to create an organic and effective liaison and critical mass, business incubation often involves fixed and core business incubation environments (otherwise called a business incubator) as well as outreach or virtual (i.e. on-line) business incubation services linked to the core environment. In other words shallow and broad services are combined with narrow and deep services. In environments where a strong entrepreneurial culture does not exist and where demand is limited by small populations and economies, in other words on SIDS, outreach and virtual business incubation is a critical part of the service mix, to reach as many people as possible. Furthermore, when geography and isolation impede movement and transport, for instance many diverse and small islands, virtual business incubation may be the most cost effective manner in which to deliver many services, complemented by outreach services when clients come to the main center.

#### *Linkages*

Business incubation relies upon linkages with many organizations and service providers:

- Other public and private business service providers (for instance lawyers, accountants, marketing experts and other professionals as well as BDS providers)
- Universities and technical colleges, as service providers and a source of emerging entrepreneurs (clients)
- Governments for support of the business incubation activity and for improvements to the enabling environment
- Finance providers, from banks and venture capital companies to informal lenders and individual equity investors (angel investors)
- Local service providers, who may offer discounts to incubatees
- The private sector including local entrepreneurs and large multinational firms, to help as mentors, trainers and as channels to markets

Effective incubation needs to reach out internationally to secure specialized services and linkages to markets when these do not exist locally.

Important linkages are often formalized as a part of Public Private Partnership (PPP) governance and operational arrangements.

#### *Access to Finance*

Finance for young burgeoning businesses is a challenge across the globe, especially at the seed and market development stages. The extent of the finance gaps vary from region to region and involve both supply and demand issues. Even though the gaps are sometimes overstated, the challenge is markedly more difficult in smaller economies, which may only ever have poorly developed capital markets. Regional approaches may be required and incubators may need to reach out to larger economies, international donors and Diasporas to find and develop appropriate financing mechanisms. Banks are widely perceived as risk averse and there is often little or no venture capital (VC) or 'angel' investment available on SIDS (although many very wealthy people have homes on the islands). One way or another, finance gaps need to be addressed in order to provide an effective environment that supports growth at the start up and later stages.

#### *Business support*

Business support, using formal and informal mechanisms, is a key element at the centre of the business incubation process. There is currently a growing understanding and provision of generic business support, often using Business Development Service (BDS) principles, both within the public and private sectors – often with the former facilitating provision by the latter. Business incubation builds on this generic support with intensive and specialized support programs for growth oriented firms. To provide a comprehensive array of business support services and networks, incubators need to develop relationships with specialized service providers regionally and internationally to fill any local gaps.

#### *The Usual Set of Services*

- **Accommodation** on flexible 'easy in easy out' terms – for those clients locating in an incubator facility
- Access to **office and communication services** at pay as you use rates – Internet, telephone, photocopying, fax, binding, reception, mail and document receipt and dispatch secretarial help etc
- Provision of **business information**
- **Business development program**, by way of training, face to face advice, formal and informal reviews, using management staff, mentors and networks of business service providers to help clients learn and adopt good management practices: business planning; financial, marketing, human resources and IP management; strategic planning; and assistance securing private and public finance for the business.
- **Personal support for the entrepreneur** – entrepreneurship development involves development of personal attributes as well as business expertise
- **Networking** with peers in the incubator and with external networks

### **A business incubator creates (or provides) an enabled environment**

Business incubation, along with its clients, is obviously affected by and aligned with the state of the prevailing environment for business, which is not likely to be ideal in any developing country. Indeed, developed countries are continually trying hard to make environmental conditions more favorable for business.

Improvements to the enabling environment are certainly called for, but it is important to appreciate that a business incubator can be an enabling environment in itself and for its clients, ameliorating some of the impediments they face.

This occurs in subtle and varied ways: business incubation can be an important test bed for stakeholders and policy makers interested in new ways of growing, regulating or supporting businesses; business incubation organizations can be effective advocates for better awareness of business and for regulatory change; successful locally grown companies can stimulate other development and are important role models to encourage others on the entrepreneurship path, slowly changing the culture; the business incubator's Public Private Partnership arrangements can build important cross sectoral linkages, improving social capital and trust, both of which foster better innovation and entrepreneurship; and, in a business incubation environment, lessons can be learned about how to foster innovation, entrepreneurship and technology transfer more easily and in conjunction and collaboration, than in less bounded environments, but which can be replicated outside the business incubation environment.

By sharing the cost of telecommunications and broadband Internet access, using current 'switching' technology, establishment and ongoing costs can be reduced for each company involved. This was a major selling point for business incubators in developed countries in the early years of the Internet revolution, although more recently, as the Internet has become pervasive with numerous providers, costs have reduced eroding the cost savings a business incubator can deliver.

Where power and security are problematic, as in many of the more difficult environments, the business incubator can provide a safe environment with reliable utilities, possibly with its own back up electricity generator and security guards.

A business incubator can help its clients navigate regulatory environments, which can be invaluable for clients, reducing their compliance costs and the time involved. Small businesses often do not have the resources nor the contacts to navigate sometimes very difficult regulatory environments.. A business incubator, with good networks, credibility and links, can not only advise its clients but can

also play an important role in raising specific issues with policy-makers that are particularly problematic for entrepreneurs.

## **Good Practices**

The business incubation industry has moved away from the term 'best' practices, preferring "good practices", for two reasons:

1. Practices are always improving, as the business incubation industry strives to improve – it is a matter of good, or better, but not best
2. What is a good practice in one situation may not be indeed is unlikely to be in another; practices need adaptation to the particular environment and community needs.

A number of good practices have been identified and documented. IDISC is one source of practical information, specific to developing countries. National, or regional, business incubator associations are another and, of these, the National Business Incubation Association (NBIA – [www.nbia.org](http://www.nbia.org)) in the USA is the most recognized, with many publications for sale from its web site. The NBIA produces a number of useful 'best' practice guides, the most recent of which is "Best Practices in Action", although the older publication (1995) "Growing New Ventures Creating New Jobs: Principles and Best Practices of Successful Business Incubation" is still relevant.

### *NBIA Principles*

#### Three Principles of Successful Business Incubation

1. Focus the energy and resources of the incubator on developing companies
2. Manage the incubator as a business, i.e. minimize the resources spent on "overhead", and develop a self sustainable, efficient business operation
3. Develop a sophisticated array of services and programs that can be targeted to companies, depending on their needs and stage of development.

#### NBIA Best Practices

1. Commitment to the core principles of Business Incubation
2. Collect and assess key information. Decide whether the Incubator is feasible or not.
3. Structure the Incubator to be financially self sustainable
4. Structure the Incubator organization to minimize governance and maximize assistance to Incubator Businesses.
5. Engage stakeholders to help business and support Incubator operations
6. Recruit staff who will manage the Incubator like a business and a manager who has the capacity to help businesses to grow
7. Choose a building that will enable the Incubator to generate sufficient revenue and also support business incubation
8. Recruit and select tenant businesses that provide revenue required in the financial model and have the potential to grow and create jobs.
9. Customize the delivery of assistance and address the development needs of each business.

10. Engage in continual evaluation and improvement as the incubator progresses through various stages of development and as the needs of tenant businesses change over time

Source: Growing New Ventures, Creating New Jobs: Principles and Best Practices of Successful Business Incubation, Rice & Matthews, Quorum, 1995.

### *UK Best Practices*

All aspects of good practice will not be in place on the first day of operation of a business incubator. Incubation environments, like any small business, will move through different phases of development over (some considerable) time. In the UK, they have developed a, three-stage model of development as part of the National Business Incubation Framework ([www.ukbi.co.uk](http://www.ukbi.co.uk))

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#### a) 'Foundation' Phase

Prior to launch, all quality incubation environments will go through a period of planning, feasibility study, raising finance, marketing, relationship building, and putting together the right management team and Board. This is called the 'Foundation Phase', during which a number of critical elements are put in place that will define the incubation environment and its offering to and impact on the clients and the wider economy. These key elements include the defining characteristics that make business incubation different to other forms of business support and provide the cornerstones for the development of a mature and sustainable incubation environment.

#### b) 'Development' Phase

This period contains a number of different phases of development and can span many years. The early years, after launch, will continue to focus heavily on marketing and relationship building, as it is primarily a time of building up a critical mass and 'deal flow' (the flow of sustainable business entities - and in some cases where equity/royalty income is secured for the incubator business, the investment - through an incubation environment) of client companies and cash flow. As incubation environments mature, so they are able to spend more time building up the services and resources offered to clients, including specialist services/facilities. Incubation management teams may also start to look outside the immediate incubation environment to identify ways in which the incubator could influence wider economic development. They will also be concerned with issues such as availability of grow-on space for their graduating clients. However, this is also a period in which many incubation environments are faced with and should anticipate a decrease and possibly the removal of any subsidies they might have had in the early years of development. Therefore there will be an emphasis on developing the business model to be sustainable.

#### c) 'Mature Incubation' Phase

The aim for most incubation management teams is to eventually run a high quality, flexible, 'full service' incubation environment that is sustainable in its own right, that has a quantifiable impact on the wider economy, that can be seen to be a catalyst for economic development, and that is creating successful, sustainable ventures. The mature incubation environment may become more specialized, bringing in a full range of advice, support and training opportunities for its clients. It may also be in a

position to develop an 'alumni' or support network of past clients as part of the business development network.