

# **Business Incubation Event**

Timisoara, May 19 & 20, 2009

## **Summary of Results**

### **1. BACKGROUND**

The GTZ supported the conception and the implementation of the University Business Incubator in Timisoara, Romania (UBIT). Five years after the inauguration both the UBIT and the GTZ intended to share experiences and lessons learnt with international experts. This for the reason for organising an international conference which took place on may 19 & 20, 2009 in Timisoara.

The event brought together some 40 experts from the broader region. Participants came from Romania, Bulgaria, Serbia, Montenegro and even Algeria to discuss lessons from the UBIT exercise, to learn from other experiences (from Germany and from the World Bank's InfoDev initiative) and to discuss options for transferring good practices into own policy making and economic development actions.

### **2. THE UBIT EXPERIENCE IN A NUT SHELL**

Although the economic development and transition of Timisoara had reached some merits, in the early 2000s some bottlenecks became obvious as well:

- The real estate market saw unprecedented price increases for land as well as for production and office space.
- The labour market was tightened and bottlenecks for specialised labour already became an inhibitor for a more dynamic development.
- At the same time Timisoara's dependency on FDIs increased. The dynamic in business creation, particularly from university graduates, was too low to foster a more endogenously driven growth. Furthermore, for those local graduates who – against all odds – intended to start up a business, the local prices for office rent were much to high in order allow a smooth start. A study performed by the City Administration in the year 2000 revealed the existence of a quite significant “grey economy” in the IT sector. Those small “apartment” firms rendered diverse IT-services to the already established big enterprises in Timisoara.

Against this background the idea was born by a group of people from the City and the County Council, and from the “Politehnica” University to create an incubator

offering both affordable space and focussed services to (mainly) graduates who intended to start up their own IT-business. A specific case was that the “Politehnica” University was in the lucky position to own a building which was no longer used for teaching purposes. As a consequence, within this building one floor could be used in order to install the incubator centre.

Although the project's kick-off approximately 18 months before the official inauguration was backed with huge enthusiasm from the three local partners the whole process became difficult because of different interests of the major players. In this situation the moderation provided by GTZ experts in the framework of its WBF-RO programme turned out to be a critical success factor. The three main actors had to go through a series of sometimes tough discussions. And today it can frankly be said that there were situations in the process where failure was more probable than success. However, only by going through this hard way, the necessary trust amongst the partners for such a joint project was created.

### **3. TAKING ON BOARD OTHER LESSONS**

After the presentation of the UBIT exercise, the conference offered two further cases of good practice:

- the example of the Incubator and technology Centre in Solingen, Germany
- Success factors for business incubators in Eastern European and Central Asian transition Economies

The Solingen case illustrated the role of an incubator in an old industrialised region facing problems of structural change. Two points were mentioned as particularly important:

- The incubator or rather its management is well connected and embedded into the local and regional socio-economic tissue. The added value the incubator provides to its tenants is its door opener role. However, this is not only a one way. The management also facilitates the outside world to identify the most appropriate firm for a specific business in the centre.
- The second point mentioned is the service and the consultancy for start-ups or people with ideas for starting up respectively. The centre is not only focussing on potential tenants. Service is being provided to all potential new entrepreneurs in the whole area.

Against the background of the experiences of the World Bank's InfoDev initiative the following lessons concerning drivers and barriers for incubators were presented:

- Mission: Regional economic development policy and value chain define the incubator mission.
- Focus: Specialized incubators are effective for setting up local innovation networks including links to R&D.
- Ownership: Incubators start from within, not outside. Donors should support but not drive.
- Positioning: Incubators and incubator planners have to understand positioning and value proposition – and its monitoring – within both the non-commercial and commercial context.
- Management: Skill set of manager at founding stage differs from manager at growth stage (donor vs. client focus).
- Upgrading: IT incubators are good starting points in ECA for specialized incubators with 'low-cost labs'.

## 4. RESULTS

Against the background of these three inputs (UBIT, Solingen InfoDev) participants discussed two main subjects:

1. The role of incubators for local economic development, and
2. The incubation process as such.

The fruitful discussion brought about rich results which are being presented below.

### 4.1 THE ROLE OF INCUBATORS FOR LOCAL ECONOMIC DEVELOPMENT PROGRAMMES

The discussions were summarised in the matrix below. The four arguments in bold received in the prioritisation round the highest votes (dots). Astonishing enough that the group found one priority argument in each field of the matrix.

	Benefits	Risks
<b>LED Programme Manager</b>	<ul style="list-style-type: none"> <li>- Local public authorities also cooperate better in other topics</li> <li>- Experiences of incubator can be exploited at national policy level</li> <li>- Quick (measurable) results</li> <li>- <b>Incubator makes region more interesting for FDI</b> (three dots)</li> <li>- Triggers entrepreneurship and exploitation of local potential</li> <li>- Incubator as important partner for future clusters</li> <li>- Cross border cooperation of universities</li> <li>- Platform for meeting, exchanging and implementation</li> <li>- Incubator as trigger to adapt national policy strategies to local reality</li> </ul>	<ul style="list-style-type: none"> <li>- Empty buildings</li> <li>- How to scale up?</li> <li>- Absence of structural relevance of the projects of the incubees and thus mistrust of actors</li> <li>- <b>Insufficient (integrated) innovation in the incubated firms</b> (three dots)</li> <li>- Slow adaptation to rapidly changing economic environment</li> <li>- Too small impact: better act at policy level</li> <li>- Lack of credibility of main actors (=manager of incubator)</li> <li>- Economic impact of the incubator can be insignificant</li> </ul>
<b>Local Stakeholder</b>	<ul style="list-style-type: none"> <li>- Mean for practical application of university know how</li> <li>- Creation of jobs</li> <li>- <b>Better visibility of young firms (fairs)</b> (four dots)</li> <li>- Increasing FDI</li> <li>- University is better connected to real life</li> </ul>	<ul style="list-style-type: none"> <li>- Failure of incubator leads to higher unemployment</li> <li>- Leavers from incubators are not yet well prepared for real business life</li> <li>- Failure of incubator</li> <li>- University remains ivory tower</li> <li>- <b>Political risk of failure</b> (three dots)</li> <li>- Legal framework for incubators not developed</li> </ul>

Against this background, in the next step the participants were asked to elaborate concrete action to overcome the selected risks or to strengthen the benefits:

### **Overcoming Risks**

#### *Political Risk of Failure*

- Involvement of all relevant actors in the process of the development of the incubator
- Good PR skills of the incubator manager

#### *Insufficient Integrated Innovation*

- Involve big existing companies in the operation of the incubator
- Install a system between R&D, Policy, Industry and supporting institutions

### **Strengthening Benefits**

#### *Incubator makes region more interesting for FDI*

- Advertising and Marketing activities
- Networking

#### *Better visibility of young firms*

- Support to apply for publicly financed projects
- Training for incubator managers

## **4.2 THE INCUBATION PROCESS**

Participants to the workshop dedicated to the issue of optimization of the incubation process generated the following

### **Recommendations by incubator lifecycle phase/activity component**

#### **Establishment phase**

- Bottom-up approach (Belgrade Business Incubator case) is possible, and it can finally attract authorities' support.
- Incubator's activity benefits of close and consistent founder's co-operation.
- A great deal of attention should be paid to the legal aspects of setting up an incubator. This determines medium and long term consequences in terms of eligibility for accessing funds, entering in partnerships, horizontal organizations.

### ***Analysis and planning***

- Perform the analysis and planning considering tenants' points of view as often as possible.

### ***Positioning***

- act as an entrepreneurship and technological information hub
- incubators should avoid to have dominantly a “NGO/non-profit attitude”
- incubators should consider themselves as commercial entities
- incubators should consider themselves as service providers

### ***Scouting for clients***

- facilitate matching of different individuals involved in start-up formation
- locate (migrate, if possible) in the geographical proximity of student campus
- work in local networks (sign-posting)
- enrolling in corporations' programs for support to start-ups (BizSpark of Microsoft, etc.)
- look for spin-offs in major local software companies
- attend GeekMeets
- follow local and regional technical events
- organize business planning competitions
- organize entrepreneurs' day
- market research with promising individuals actively using common social networking
- “market research” with Universities and R&D organizations
- It is possible to have success with very young entrepreneurs (scouting in high-schools).
- attract spin-offs (constant relationship with universities and research & development organizations).

### ***Admission process***

- Incubator managers should set high standards in assuring quality and responsibility in the business plan assessment processes
- Incubators should have clearly defined, transparent and strictly observed admission criteria that should be, on other hand, periodically adapted

### ***General functioning***

- make entrepreneurs acknowledge that they have the responsibility for their training
- making available early stage funding could stimulate entrepreneurs to focus on innovation
- customizing services, starting from a stable core
- stimulate entrepreneurs-to-be visioning processes
- Incubators should work on transforming technicians in business persons.

### ***Developing services portfolio***

- only a high quality training program will assure a good participation
- adapt the service offer to entrepreneurs' needs
- coaching services should be preceded by achieving a good level of quality for "simpler" types of services like networking and information provision
- Coaching services should be approached at a later stage as an important service to be offered
- Insure a good balance between free and charged services

### ***Assuring financial soundness and sustainability***

- Sustainability should be considered in any stage of incubator planning and functioning
- Incubators should keep track record of the cost of their services even when the price are fully or partly subsidized in publicly endorsed and funded programs