

The Role of Business Incubators in Supporting the SME Start-up

Lubica Lesáková

Matej Bel University, Faculty of Economics
975 90 Banská Bystrica, Tajovského 10
Slovak Republic
E-mail: lubica.lesakova@umb.sk

Abstract: A range of factors determining the extent and success of entrepreneurship have a local dimension: they are either strongly affected by local phenomena and/or they are best supported by initiatives conceived and implemented locally. Entrepreneurship can be locally fostered through business incubators. The role of business incubators is to accelerate the successful development of entrepreneurial companies through an array of business support resources and services, developed and managed by incubator management and offered both in the incubator and through its network of contacts. The main aim of the article is to present the role of incubators as a means of supporting the small and medium enterprises. The article is divided into three parts. In the first part is presented the core of incubators, incubator types and goals. In the second part is explained the role of business incubators in fostering local dimension of entrepreneurship. In third part of the article we describe the building of business incubators in Slovakia and their role as a means of helping to start entrepreneurship as well as of helping to support technologically oriented SMEs in Slovakia. The paper was elaborated as a part of VEGA project 1/0654/11, "Innovative small and medium enterprises as a part of knowledge based economy in Slovakia".

Keywords: incubator; small and medium enterprises; start-up; types of incubators; business incubator; technological incubator; virtual incubator; role of business incubator

1 Introduction

Business incubators began in the 1960s and really took off in the late 1990s as support for start-up companies who need advice and venture capital to get their ideas off the ground. Business incubators are programmes designed to accelerate the successful development of entrepreneurial companies through an array of business support resources and services, developed and managed by incubator management and offered both in the incubator and through its network of contacts [15].

The main goal of a business incubator is to encourage the development of new business within the local community. By assisting a local entrepreneur to start a company in the area, the community is likely to benefit from an increase in the number of available jobs in the area and the additional revenue that is brought to the city or town as a result of the new business activities. Both elements can help to revitalize a local economy and thus enhance the quality of life for everyone who lives and works in the area. The main aim of the article is to present the role of incubators as a mean supporting the start-up small and medium-sized enterprises. The article is divided into three parts. In the first part is presented the core of incubators, incubator types and goals. In the second part is explained the role of business incubators in fostering local dimension of entrepreneurship. In third part of the article we describe the building of business incubators in Slovakia and their role as a means to help to start the entrepreneurship as well as to help to support technologically oriented SME in Slovakia. The paper was elaborated as a part of VEGA project 1/0654/11, "Innovative small and medium enterprises as a part of knowledge based economy in Slovakia".

2 The Role of Business Incubators

Business incubators aim to assist new entrepreneurs with business start-up. The business incubator helps to fill a void which is found in many areas. Not everyone is able to spend the time or money necessary to attend college and obtain a business administration degree. Further, not everyone has access to resources that can fund a new business effort until it becomes profitable. Incubator programs help to fill the gap by providing rudimentary training to entrepreneurs, a space to launch the business, and in some cases contacts between the new business owner with others who are in a position to invest in the future of the company [2].

The incubator cannot replace business initiative, personal effort and resourcefulness. There is a term used called "incubator syndrome" in which the entrepreneur allows their initiative and judgement to be replaced by those of the consultants in the centre. While the consultants may give superb advice, it is the entrepreneur's responsibility to make the business succeed.

Incubators vary in the way they deliver their services, in their organizational structure, and in the types of clients they serve. Classical incubators are business incubators oriented towards giving support in starting the business through advice, lease of space, and the offer of the administrative infrastructure and other services. They may also have good connections to sources of funding, but they are seldom themselves business investors. Technological incubators support technologically oriented firms mostly as start-up and spin-off firms. They cooperate close with universities, research institutions and science and technological parks [14]. Many of incubation programs serve affiliate or virtual clients. These companies do not

reside in the incubator facility. Affiliate clients may be home-based businesses or early-stage companies that have their own premises but can benefit from incubator services. Virtual clients may be too remote from an incubation facility to participate on site, and so receive counselling and other assistance electronically. This virtual model suits those entrepreneurs who need the advice offered by an incubator but who still want to maintain their own offices, warehouses, etc. [1].

Incubators differ from science and technology parks in their dedication to start-up and early-stage companies. Science and technology parks, on the other hand, tend to be large-scale projects that house everything from corporate, government or university labs to very small companies (both of them – science as well as technology parks – tend to be for established companies paying commercial rates). Most science and technology parks do not offer business assistance services, which is the core of a business incubation program. However, many science and technology parks house incubation programs [3].

Most common incubator services are: help with business basics, networking activities, marketing assistance, help with accounting and financial management, access to bank loans, loan funds and guarantee programs, access to angel investors or venture capital, help with presentation skills, links to higher education resources, links to strategic partners, help with comprehensive business training programs, advisory boards and mentors and technology commercialization assistance. Although most incubators offer their clients office space and shared administrative services, the heart of a true business incubation program are the services it provides to start-up companies.

Unlike many business assistance programs, business incubators do not serve any and all companies. Entrepreneurs who wish to enter a business incubation program must apply for admission. Each community sets criteria that applicants must meet in order to participate in the business incubator. Acceptance criteria vary from program to program, but in general only those with feasible business ideas and a workable business plan are admitted [10].

The amount of time a company spends in an incubation program can vary widely depending on a number of factors, including the type of business and the entrepreneur's level of business expertise. Firms with long research and development cycles require more time in an incubation program than manufacturing or service companies that can immediately produce and bring to market a product or service. Most businesses that use an incubator will stay there for up to a year, but by then should have grown sufficiently to move into their own facilities. Many incubation programs set graduation requirements by development benchmarks, such as company revenue or staffing levels, rather than time in the program.

Incubators do charge for the facilities and resources that they supply, but since nearly all are supported in some manner by government or regional grants, the charges are subsidised and lower than in the market place. Because many of

incubators are regionally funded, or because a young company would require such a facility to be local to them, they are mostly identified by region [5].

The types of companies that find business incubators most helpful tend to be high-tech, or knowledge-based businesses. The main industry sectors intentionally supported by incubation programmes in Europe are given in the Table 1.

Table 1
Main industry sectors supported by incubation programmes in Europe

Industry sectors/Business activities	%
Biotechnology, pharmaceutical sector	14,2
Hi-tech sector	18,6
IT sector	18,2
Combination of more activities	9,5
Business and financial services	0,6
Retail, marketing and distribution	0,4
Services/Professional	8,8
Knowledge oriented services	11,5
Creative industries	6,1
Research and development	12,2

Source: State of the Business Incubation Industry, 2006

About one-third of business incubation programs in Europe are sponsored by economic development organizations. Government entities (such as cities or counties) account for 21% of program sponsors. Another 20% are sponsored by academic institutions, universities and colleges. In many countries, incubation programs are funded by regional or national governments as part of an overall economic development strategy [16].

3 Business Incubators – Programmes Fostering Local Dimension of Entrepreneurship

A range of factors determining the extent and success of entrepreneurship in a country have a local dimension: they are either strongly affected by local phenomena and/or they are best supported by initiatives conceived and implemented locally.

A trend devolving resources and decision-making power to regional and local levels has occurred since the late 1960s [13]. As a result, local and regional governments in OECD countries have developed an array of enterprise development programmes with a variety of objectives and target groups. They include efforts to improve enterprise dynamics, particularly start-ups, by tapping

into latent entrepreneurial ability, improving the regional business climate and facilitating collaborative behaviour.

Indeed, there are particular advantages in supporting entrepreneurship through local programmes: actions can be better tailored to the specific needs of an area and its businesses, and the involvement of a wider range of actors can bring a mix of competencies to this issue.

The fact that the extent and likely success of entrepreneurship is frequently tied to the local milieu demands creative policy thinking from both local and central governments [4]. Indeed, a policy which fails to account for regional and local differences will likely be suboptimal.

David J. Storey (1994) identifies six significant influences on new firm formation which can vary from region to region. These six factors are:

- a) demographics – regions with young populations tend to produce more firms, and rates of start-up are generally higher in urban than in rural environments,
- b) unemployment – through different routes this can both encourage or diminish business start-up rates,
- c) wealth – it is expected to produce in wealthier areas more business start-up owing to higher levels of demand and greater availability of capital,
- d) the educational and occupational profile of the workforce – may have contradictory effects on business start-up, as persons with superior qualifications will more likely find employment but may also have superior means with which to create their own enterprise,
- e) the prevalence of small firms – it is argued that employees in small firms will aspire to own other small firms,
- f) the extent of owner-occupied housing – property is viewed as a frequent source of start-up capital for entrepreneurship.

The economic characteristics of the location in which the business incubator is established greatly affect its operation and its usefulness. Business incubators should maximise synergies with the local business environment. The areas chosen as incubator sites should ideally provide access to markets for products or services (as small firms within an incubator stand to benefit from trade and networking with large companies outside), a degree of business expertise in the community, diverse financial resources, and local commitment to the incubator programme. In many countries the operation of many incubators is overseen by an advisory board comprising representatives of the local business community. Many cases confirm that prior to establishing a business incubator, it may be necessary to improve the local climate for entrepreneurship with the aim of encouraging demand for the services an incubator would provide. In this vein, a 1994 evaluation of science parks in the United Kingdom found that a critical issue was to increase the supply of high-tech firms.

An important issue in the functioning of business incubators in a region is the nature of their interaction with institutions of higher education. The support of start-up firms – particularly high-technology firms – around university centres are cases in this point. Many institutional permutations are possible; some involving a greater degree of involvement of the academic community in business development than others. In such cases, suitable divisions of labour between academic activity and enterprise development must be found – for instance as between applied and general research [7]. A related tension stems from the fact that industry often operates with short-term time-frames, while universities may pursue longer-term research objectives.

The popularity of incubators has become widespread. Local authorities consider business incubators a useful instrument for nurturing a more entrepreneurial climate while reducing the failure rate of small enterprises.

4 Supporting SME Start-up by Means of Incubators in Slovakia

The building of an incubator network in Slovakia started in 2002. By 2009, 16 incubators were established in various regions of Slovakia with state budget support, pre-accession Phare Programmes, and structural funds. Apart from the above, 1 training (virtual) incubator was established in Rimavska Sobota [11].

In 2009, the Programme “Support of SME via the network of incubators and implementation of the research-based spin-off method” supported 5 incubators in with a total amount of 53 598 Euros from the state budget [10]. The incubators covered with these funds provided a part of operational costs and loss incurred due to the provision of leases for prices lower than commercial market prices and due to provision of additional services for lessees.

Table 2

Overview of funds expended for support of operation of incubators in 2009 from the state budget

Incubator	City	Contribution in EURO
Business incubator	Handlová	13 355,27
Incubator	Moldava nd Bodvou	9 604,43
Technological incubator (TI)	Prievidza	6 523,21
TI INOVATECH	Sládkovičovo	16 293,30
TI in Science and Technological Park	Žilina	7 821,83
Total sum from state budget		53 598,04

Source: <http://www.nadsme.sk>

The business incubator in Handlová reached an occupancy of 76% as of 31 December 2009, of which the occupancy rate of incubated companies was 87%. In comparison with the previous period, the number of incubated companies was reduced from 13 to 12 (a combination of various activities) employing 42 employees. Activities/services of the incubator are oriented towards IT courses, counselling for starting entrepreneurs, e.g. related to income tax returns or annual financial statements, consultations related to requests for micro-loans and creation of business plans. At the same time, the incubator leased the premises and technology to incubated companies, provided clerical service and promoted the services offered by the incubator.

The incubator in Moldava nad Bodvou reached an occupancy rate of 55% as of 31 December 2009, of which the occupancy rate by incubated companies was 100%. The number of incubated companies was 11 (retail, distribution, services). Activities/services of the incubator are: lease of premises, promotion of the incubator activities, working on projects.

The technological incubator in Prievidza reached an occupancy rate of 72% as of 31 December, 2009, of which the occupancy rate by incubated companies was 85%. Within the monitored period, the number of incubated companies was reduced to 22 (mostly small technological firms) and the number of jobs was reduced to 98. The activities/services of the incubator are oriented towards trainings, counselling for starting companies and the companies in long-term care, counselling related to the provision of micro-loans, various project activities, and lease of premises and technology.

The technological incubator INOVATECH Sládkovičovo reached an occupancy rate of 57% as of 31 December 2009 (of which the occupancy rate by incubated companies was 58%), and placed 10 incubated companies with 66 jobs. The activities/services of the incubator are the lease of premises, lecture halls with equipment, a conference room, providing the access to PC rooms, counselling and cooperation in the creation of business plans and in the process of acquisition of funds, administration services for incubated companies, and the promotion of the services provided by the incubator. The incubator became a network partner of the Microsoft's "BizPark" Programme, which is designed for "start-up firms" [9]. Several meetings, seminars and presentations related to entrepreneurship took place in this incubator. The incubator started cooperation with the Academy of Education in Galanta, a potential partner for education and counselling.

The technological incubator in Science and Technological Park in Žilina reached an occupancy rate of 89% in the monitored period, of which the occupancy rate of incubated companies was 84%. In comparison with the previous period, the number of incubated companies dropped to 34 and the number of jobs in incubated companies is 149. The activities/services of the incubator are the lease of premises and providing administration services, counselling, consultation in the field of SME, the creation of the project for construction of a new incubator building, a member of the first IT cluster in the Slovak Republic - Z@ICT, a

member of cluster in automobile industry TPI-TEC, the presentation of companies in the incubator, the creation of the design of the technological transfer model at Technical University in Žilina to prepare the conditions for effective commercialisation of research and development results, and the organisation of events for students (for example the campaign, “Do you have an idea?”, with the aim to address new clients).

The number of incubated enterprises is a significant factor of fulfilment of goals of the incubators as well as of the national programme [9]. As of 31 December 2009 the 5 mentioned incubators placed in the operational premises together 89 starting enterprises, which created 449 jobs. The average total occupancy rate in five incubators, to which a contribution was provided in 2009, was 69%, of which average occupancy rate by incubated companies was 81%.

As to the total, by 31 December 2009, 214 incubated companies, which created together 3288 jobs, were placed in 16 business and technological incubators in Slovakia. Another 64 jobs were created in the management and administration of the incubators. The average total occupancy rate in incubators was 79%, providing the interest of starting entrepreneurs in incubator services and importance of investments for their establishment and operation [6].

Table 3
Business and technological incubators in Slovakia (as of 31 December 2009)

Incubator	Total area for lease in m ²	Occupancy Rate in m ²	Occupancy rate in %	Number of incubated companies	Number of jobs	Number of jobs in management and administration
Business Incubator and Technological Centre B.Bystrica	1 066	866	81 %	14	83	4
Incubator Bratislava	197	114	58 %	8	92	5
University Technological Incubator STU Bratislava	780	623	80 %	12	45	3
General Business Incubator Gelnica	2 600	2 487	96 %	6	126	4
Business Incubator Handlová	951	724	76 %	12	42	3
Scientific-Technological Incubator Košice*	x	x	x	11	124	5
Incubator Malacky	2 412	2 002	83 %	24	65	8
Martin-Flemish Business and Incubator Centre Martin	1 075	541	50 %	18	79	3
City Incubator Martin*	x	x	x	x	x	x
Business Incubator Spišská Nová Ves, Part 1	740	665	90	5	48	2

Business Incubator Spišská Nová Ves, Part 2	1 233	1 037	84 %	3	10	1
Incubator House, Moldava nad Bodvou	735	403	55 %	11	94	3
Technological Incubator Centre Prešov	898	893	99 %	12	131	6
BIC, Technological Incubator Prievidza	1 084	780	72 %	22	98	4
Business Incubator Rožňava	1 877	1 376	73 %	12	76	3
Technological Incubator Inovatech Sládkovičovo	1 159	656	57 %	10	66	6
Science and Technology Park, Žilina	770	685	89 %	34	149	4
Total	17 577	13 852	79 %	214	1 328	64

** statistical data for these incubators are not available*

Source: <http://www.nadsme.sk>

Over the last several years there is evident development of business incubators in Slovakia. They help many entrepreneurs and to create conditions to start the entrepreneurship, but also help to support technologically oriented SMEs. There is no one perfect model for a business incubator. Some designs are very similar to the development centres. Others are more focused on the demands of the local culture and business community and follow a format that is more in line with specific local needs. Often, the exact structure of the business incubator program depends on who is backing the effort, as well as what organizations contribute to the continued operation of the program [8].

Conclusions

Business incubators form an important part of the support infrastructure for small and medium enterprise start-ups in Slovakia. Their mission is to provide the starting companies (usually for a period of 3 years from the commencement of business) with complex support on one spot and create favourable starting conditions to enable the operation of their enterprise. The main services provided are the lease of office space, production and storage premises at prices lower than the usual commercial market prices and administration support for the companies (e.g. providing of conferences and showroom premises, certain clerical services, technical infrastructure and others). Apart from business premises, the incubators provide their clients with educational services and counselling (e.g., the creation of business plans, counselling related to the acquisition of funds for entrepreneurship, the elaboration of the marketing strategy, mediation with contacts, and the like). The extent and form of support in individual incubators varies depending on type, specialisation and capacity.

It can be summarized that business incubation helps to meet a variety of economic and socio-economic policy needs in a country, which may include business creation and retention, technology commercialization, creating jobs and wealth as well as fostering a community's entrepreneurial climate.

Bibliography

- [1] Bessant, J. – Tidd, J.: *Innovation and Entrepreneurship*. 2nd Edition. Chichester: John Wiley and Sons, Ltd, Great Britain, 2009, pp. 255-297
- [2] Burns, P. – Dewhurst, J.: *Small Business and Entrepreneurship*. London: McMillan Press Ltd, United Kingdom, 1996, pp. 37-73
- [3] Deakins, D.: *Entrepreneurship and small firms*. London: The McGraw-Hill Publishing Company, London, Great Britain 1996, pp. 48-72
- [4] Duh, M. – Belak, J.: *MER Model of Integral Management: its Improvement with Enterprises' Key Success Factors*. Proceedings of the International Conference on Management, Enterprise, Benchmarking (MEB), Budapest: BMF, Hungary, 2011, pp. 9-20
- [5] Garavan, T. – Ó Cinnéide, B. – Flemming, P.: *Entrepreneurship & Business Start-Ups in Ireland. Volume 1: An Overview*. Dublin: Oak Tree Press, Ireland, 1997, pp. 5-65
- [6] *Inkubátory a technologické centrá. Inkubované firmy 2009*. Business Innovation Centre, Banská Bystrica (release date 11.03.2009) Available on: <http://www.bicbb.sk/e-inkubator.sk/> [27.4.2011]
- [7] Kadocsy, Gy. – Francsovcics, A.: *Macro and Micro Economic Factors of Small Enterprise Competitiveness*. *Acta Polytechnica Hungarica*, Vol. 8, No. 1, 2011, pp. 23-40
- [8] Lesáková, L.: *Determinants of Innovation Activities in Small and Medium Enterprises in Slovakia*. In: *Innovations – Factor Determining Competitiveness of Small and Medium Enterprises in the Global Business Environment*. Banská Bystrica: Faculty of Economics, Matej Bel University, 2009, pp. 214-223
- [9] *Obchod – Priemysel – Hospodárstvo. Dôraz treba klásť na prácu v regiónoch*. *Mesačník Slovenskej obchodnej a priemyselnej komory*, mimoriadne číslo, ročník 2010, pp. 16-18
- [10] *Podávame pomocnú ruku v podnikaní. Program podpory podnikateľských inkubátorov*. Bratislava: Národná agentúra pre rozvoj malého a stredného podnikania (release date 12.02.2009). Available on: <http://www.nadsme.sk/sk/content/enterprise-europe-network/> [18.4.2011]
- [11] *The State of Small and Medium Enterprises in Slovakia in 2009*. Bratislava: National Agency for Development of Small and Medium Enterprises, 2009, 94 p.

- [12] State of the Business Incubation Industry, 2006
- [13] Storey, D. J.: Understanding the Small Business Sector. The Birth of Firms. London: International Thomson Business Press, United Kingdom, 1994, pp. 112-160
- [14] Tidd, J. – Bessant, J. – Pavitt, K.: Řízení inovací. Zavázení technologických a organizačních změn. Brno: Vydavatelství Computer Press, Business Books, 2007, pp. 483-511
- [15] http://en.wikipedia.org/wiki/business_incubator
- [16] Your Business is Our Business. Starting a Business Incubator. Enterprise Europe Network, European Commission on SME (release date 30.04.2008). Available on: http://enterprise-europe-network.ec.europa.eu/index_en.htm/ [24.4.2011]