

FUNDAMENTALS OF BUSINESS INCUBATOR DEVELOPMENT

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Abstract:

The pattern of European Union, including Romania as a member state, determines the reconfiguration of Romanian way of acting in order to develop new business. Learning from others with much more experience in the field of regional economic development may be the key to accomplish the goal of economic and social cohesion.

The gap between Romania and EU-27 average in economic development terms may be reduced only by promoting small businesses to enhance. Creating jobs and building wealth is the only solution available to the current problems of Romanian economy.

The paper intends to respond to basic questions of creating a business incubator. Also, it may be a tool to local and regional promoters that want to give rise, in a proper manner, to a Business Incubator.

Business Incubators’ Role in Local and Regional Economic Development consists in creating jobs and building wealth by fostering the formation of new businesses.

Predominant Economic Development Strategies used are:

a) **Business attraction** that includes: *financial incentives* (e.g., tax breaks, grants, loans), *non-financial incentives* (e.g., customized training, site preparation, research and development capacity) and *quality of life incentives* (e.g., climate, schools, recreational activities);

b) **Business retention and expansion** that strives to keep the businesses that a community or region already has and to encourage them to expend their operations.

c) **Entrepreneurship assistances** that involves encouraging entrepreneurial activity in a community or a region, by helping entrepreneurs to overcome obstacles and to access the essential resources in order to create growth and to sustain new companies. This strategy includes the following tactics:

- ✓ *Increasing access to capital*, including micro-loan programs, revolving loan funds administrated by an economic development organization, bank loans, angel capital and venture capital.
- ✓ *The “one-stop” approach*, that is very popular and consists in acting as a single source of information and referrals for entrepreneurs.
- ✓ *Technical/business management training*, through classroom instruction, workshops, on-site coaching.
- ✓ *Contract procurement assistance*, in order to help the small firms to get their share in the government contracts.
- ✓ *Creating networking opportunities*, in order to share ideas and information and to connect the entrepreneurs to the sources of capital.
- ✓ *Export assistance*, in order to help new companies to access the international markets (e.g., trade fairs, export license procedure, counselling on international marketing, etc.).
- ✓ *Technology transfer assistance*, in order to ensure that these technologies reach markets as quickly is possible.

! Observation: The most successful incubators do not provide these services on their own; they collaborate with many of the other economic, development and entrepreneurship assistance organisation in the region.

The First Business Incubator: was founded in 1959 by Joseph L. Mancuso of Bavaria, New York and it was called America’s Original Business Incubator.

Fishing for Clients: In order to attract companies to the incubator that are some rules that should be followed:

- allowing of enough resources;
- finding out what worked for others in like circumstances (networking with other incubator professionals and to National Business Incubation Association in order to exchange ideas, approaches, and best practices);
- paying attention to the present;
- knowing your incubator;
- visiting successful incubators;
- participating together with the consultants to the market studies.

Feasibility Studies: should generally examine the following core elements:

- ✓ *Market*, including the composition of the community's or region's entrepreneurial pool, the needs of prospective clients, and whether the community can meet those needs;
- ✓ *Stakeholder buy-in*, which focuses on garnering program champions and community support;
- ✓ *Financial feasibility of the project*, both short term and long term;
- ✓ *Availability of real estate* suitable for a business incubation program.

The time to perform a feasibility study is when there already exists a degree of local interest in business incubation as an economic strategy.

A Checklist for Planning an Incubator Facility

- a) *Zoning* in order to be attractive for the current and future types of business;
- a) *Building codes* that cover everything from electrical service to parking spaces;
- b) *Location* in order to facilitate the access for clients, visitors and suppliers, taking into account the transportation links, considering the proximity to the airport, highways, restaurants and other services that clients may need;
- c) *Traffic and parking* in order to not disturbing traffic and to ensure the adequate and secure parking;
- d) *Leas able space* in order to be suitable with the client's needs;
- e) *Security* systems for the buildings and parking area such video systems or code or card access systems that offer the ability to track who entered the building and when.
- f) *Insurance* of the building or clients contests.
- g) *Access to shared facilities* as docks, restrooms, etc.;
- h) *Material flow* in order to enable the movement of materials around, such as: multi-storey structure that provide vertical and horizontal flow, spacious hallways, elevators, etc.;
- i) *Hazards* such as underground storage tanks or asbestos;
- j) *Staging areas*
- k) *Floor loads*
- l) *Telecommunications* such as: data lines, servers, hubs, routers, etc;
- m) *Heating, ventilation and air conditioning*
- n) *Electrical service*
- o) *Plumbing*

Ten Keys to Incubation Success:

1. Effective business incubators are based on 2 essential documents: feasibility study and business plan;
2. Business incubators are service programs, not buildings.
3. Top incubators are well managed, which means that provide appropriate salaries and benefits to individuals who have the skills to help companies grow and to transform their communities.
4. Incubator staff must be entrepreneurial and non bureaucratic, they should be flexible and committed to service industry.
5. Business incubators managers should be proactive in the provision of services in order to screen clients, analyze their strengths and weaknesses, help set benchmarks for growth and bring in mentors and business service providers to provide customized assistance.
6. Regular evaluation of all aspects of the program ensures that the incubator meets its goals, evolves with the market and incorporates new tools and technologies to better serve its clients.
7. Business incubator programs are the nexus of significant angel equity investing networks, publicly, sponsored seed funds, technology infrastructure developments and commercialization programs, entrepreneurial campuses or youth entrepreneurship programs.
8. Top incubators adhere to the best-practise standards.
9. Top incubator managers engage in professional development activities, ongoing learning and networking to improve their skills.
10. Incubator managers are committed, idealistic and hard-headedly realistic at the same time.

Nuts and Bolts of Preliminary Planning

Preliminary planning is the first phase of the incubator development the process that also includes: initiation and start-up, fine-tuning operations and growing client firms. There is a serious of steps that should be followed in order to accomplish preliminary planning phase, as follows:

- *Identify potential stakeholders* – the successful entrepreneurs, politicians, and administrators, community activists, who are tied to economic development and who have any interests in common

with incubator. Stakeholder's goals and objectives must fit within the timeframe of the incubator development. Once established that, the next step refers to the commitment of the resources: human capital, money, infrastructure, etc.

- *Conduct a needs assessment* – that consists in identifying the local entrepreneurial base and gaps in the existing business and financial services for entrepreneurs in the community.
- *Choose the right real estate* – in order to respond to the needs of entrepreneurs. This step consists in assessing the scale and the terms upon real estate market's being provided.
- *Examine organizational issues* – stakeholders' objectives, available resources and the capabilities of all the players, potential sources of financing.
- *Plan services and crunch numbers* – refers to the programs that are necessary to add value to clients firms and consists in determining the composition, organisation, prices and legal structure of shared services, management assistance, consulting and business financial programs.
- *Construct a team and a business plan* – Incubator professionals comes from a variety of backgrounds: established companies, economic development organization, banking, university, but there are certain qualities they have in common: flexibility, creativity, steadiness under stress, etc. The business plan must be constructed based on preliminary drawings and clients outreach recruitment plans.

How to Create an Effective Mission Statement

A mission statement should be clear and concise in order to serve two purposes:

- Guiding an incubation program's activities and development;
- Serving as an elevator pitch for the program, enabling prospective stakeholders, clients and employees to understand quickly what the incubator stands for and to decide whether they want to get involved.

A mission statement ought to reflect a program's specific purpose and its unique strengths.

A mission statement states the fundamental reasons for incubator existence, establishes the range of the incubator's activities, provides an overall direction for the incubator and acts as a foundation for developing goals and objectives.

The main characteristics of a good mission statement are:

1. looks to the future, not to the present or past;
2. reflects the incubator's unique strengths
3. offers a clear and concise message.

Crafting Good Incubators Documents

Common incubator documents:

- *Leases or licenses*: A lease agreements grants a client an exclusive right to space in an incubator for a specified period in exchange for rent. A license agreement outlines services a client will receive, including use of space, in exchange for fees.
- *Service agreements*: contracts that delineate the services an incubator will provide and clients' obligations to make use of those services.
- *Applications and entrance requirements*: written questions and guidelines that an incubator uses to assess potential clients suitability for the program and that potential applicants consider determining their eligibility for and interesting in a particular incubator program.
- *Client handbooks or manuals*: can explain admission, graduation, parking, smoking and other policies; support services the incubator provides and their cost; client responsibilities; how to operate the photocopier machine or sign up to use a conference room; and any other information that clients need to know.
- *Conflict of interest policies*: guidelines for revealing and resolving financial, ethical and other conflicts that incubator representatives might have between their personal interests and their official duties.
- *Nondisclosure agreements*: confidentiality agreements that allow incubator staff to exchange necessary information with incubator applicants and clients, and provide applicants and clients reassurance that incubator staff will not inappropriately disclose that information.
- *Graduation policies*: criteria used to determine when a client will leave an incubator program.

An incubator can't afford to operate without the following documents:

- Business plan
- A documented client intake process, including entrance criteria
- A documented graduation process and criteria, as well as a post graduation tracking process

- A lease or licence agreement that is competitive with other regional incubators, attractive to the best candidates and fair in its terms.

Security Grant Funding for Your Incubator

There are several types of grant markers such as:

- *Community foundation*: non-profit organization that make grants in a specific region or a community;
- *Corporate foundation*: that derives their assets primarily from a for-profit business. They have their own endowments.
- *Government*
- *Family foundations*: independent private foundation that derive their funds from a single family.
- *Operating foundations*: private, non-profit foundations whose primary purpose is to conduct research, social welfare or other programs.

Developing a Network of Incubators may include the following activities: expanding the service reach of an incubation program, providing more space when a first site overflows, diversifying the types of clients a program can serve, or creating an industry cluster.

How to maximize Operating Revenues in the Early Years

During year one, you typically acquire, with proper marches, federal and state moneys to build or renovate a facility. One way to help control operating costs is to plan a design that allows you to market and accept clients while the renovation is under way, thus generating cash flow from rentals as early in the program as possible. Also, you should focus on how you hire and pay management staff.

In year two, you need to identify other sources of funding. You will need to look at city and state governments, local foundation, and private industry as sources of funding, as well as donations of labour, material and equipment to defray your operating expenses.

Growing Life Sciences Companies is depending on the community, if it can support life science companies or not. The keys to life science industry success are:

- *Cutting-edge research* that produces innovations around which entrepreneurs can build technology companies.
- *Access to capital* including seed and venture funds that support life sciences companies at all stages of development.
- *Effective technology commercialization* the process of getting university and other public research from the laboratory to the marketplace.
- *Skilled workforce* can become an issue as companies expand and move out the incubator. Specialised companies may have to recruit nationwide.
- *Access to transportation* such as having nearby hubs for business activities including shipping products and bringing in venture capitalists.
- *Industry infrastructure* that includes access to professional services, such as patent and clinical trial firms.
- *Entrepreneurial culture* with people willing to take on the risk of starting and working for a company at a stage when there's a lot of risk and no money, and people with business acumen to work with them.
- *Quality of life* Cultural attractions, sunny beaches and other amenities can make a difference when recruits are in high demand.

For-Profit Business Incubator Strategies:

- ✓ *Learn to take care of yourself*: For profit incubators must be self sustaining in a way that nonprofits are. Whether through rents, service fee, taking equity in clients, or other means, non-profit incubators may be able to adapt for-profit strategies for bringing in revenue to their own models.
- ✓ *Define your mission clearly*: Many aspects of an incubator's operations derive from its mission that if an incubator mission is murky and unfocused; its operations may be also. For-profit incubators are required to explain how they plan to gain returns for investors and other stakeholders.
- ✓ *Educate your principals about incubation*: In the for-profit world, incubation must be justified to a corporate board or potential investors as a viable profit making business. While challenging going through the process of justifying an incubator's model can result in better educated staff, board members, sponsors and investors.

Focusing on Synergy in Incubators

The following 9 factors influencing the development of relationships in an incubator, all the factors being affected by each other and, to vary degrees, managed by the incubator manager: types of

businesses and the presence of clustering; the personal characteristics of the entrepreneurs; stages of development among firms; critical mass; layout of space; the incubator manager; norms and attitudes; forums and time.

By working with these factors, the incubator manager can create **an opportunity structure** in which resources, competencies and the emotional support are available.

Exist 3 types of benefits resulting from networking and relationships: instrumental, psychological and moral support and developmental.

Critical Factors for Success

- ✓ *Conduct an effective feasibility study*: long before the first client moves into incubator, developers need to take a hard look at their plans for the program, including its facilities, finances and focus. Otherwise incubator sponsors could be taken by surprise when the doors open and clients fail to materialize.
- ✓ *Select an appropriate facility*: the size of the building, its location and its configuration.
- ✓ *Be smart about staffing*: business incubator managers must be committed to helping client companies succeed. Business incubation programs need highly committed managers who also have the hard and fast business program management and coaching skills that are necessary to help clients succeed.
- ✓ *Work toward self sustainability*: creating a program that is not reliant on any one source of outside funding should be a long term goal of incubators programs.
- ✓ *Partner with other organizations*: it's important for an incubation program to interact with other business and community organizations to address all the need of growing companies.
- ✓ *Nurture healthy board relations*: Strong leadership, effective communication and a visionary outlook can help program managers' reign in rouge board members whose personal agendas threaten to derail the incubator's focus on helping entrepreneurs. These traits may also counteract the strain of members who want to micromanage daily operation.
- ✓ *Educate the community*: about the incubator goals and accomplishments and about the good use of incubator funds, in order to be accepted and supported by the community.
- ✓ *Invest in professional development*: money spent on professional development opportunities is an investment in the incubator program itself.

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