

Business Incubators: Findings from a Worldwide Survey and Guidance for the GCC States

Hanadi Mubarak Al-Mubarak
Kuwait University, Kuwait

Michael Busler
Richard Stockton College, USA

Abstract: Business incubators can help young firms to survive and grow during their startup years, and they can play a key role in the economic development of a community or region. In developing countries including Kuwait and the other Gulf Cooperation Council (GCC) member states, business incubators can be particularly valuable in helping to develop local economies, promote technology transfer, create new enterprises and generate jobs. There is potentially a wealth of information available about the characteristics and services offered by business incubators in the United States and other countries, which might be used to inform the development of incubator programmes within these countries. To tap into this information, an Internet-based survey was conducted with a sample of business incubators worldwide. The survey results are used to make recommendations for how to maximise the success of incubators, including matching services offered to the needs of clients and involving a range of community stakeholders in the development of their programmes. A number of options are proposed for developing and expanding the business incubator concept in Kuwait and the GCC member states.

Keywords: Business Incubation, Economic Development, Entrepreneurship

1 Introduction

A business incubation programme can be described as a dynamic process of developing emerging commercial entities. The National Business Incubator Association in the United States describes the functions of business incubators in the following way.

Although the concept of business incubation originated in the U.S. business incubators can now be found throughout the world, they can potentially play a valuable role in developing countries such as Kuwait and the other Gulf Cooperation Council (GCC) member states, where small companies are often struggling to compete in local, national or international markets with relatively few resources and limited technical or business expertise.

However, there is little systematic information and guidance available to these developing countries to enable them to establish or promote the development of business indicators. This study aims to help to fill the gap by providing research-based data on business incubator programmes from a literature review and worldwide survey. This information is intended to provide information and guidance to governments, private entrepreneurs and other actors, particularly in developing countries, who wish to establish business incubators to help meet the business and economic development needs of their country.

2 Functions of Business Incubators

A business incubator programme consists of a controlled work environment distinguished by particular characteristics that are all intended to create a collegial climate for the training, support and development of successful small entrepreneurs and profitable businesses. These characteristics may include the initial selection of early-stage or startup entrepreneurial firms with potential for growth; designated work spaces provided for each tenant; shared facilities necessary to operate the business; shared support such as

communications and administrative assistance; a small management team who can train, develop and assist the new entrepreneurs; access to critical professional services such as legal and financial assistance; affordable rents and fees for services.

Incubation programmes work to achieve various goals, such as commercialising new technologies from universities, diversifying local economics, serving minority entrepreneurs and creating jobs. Increasingly, incubators are being established to grow companies for particular markets, which might be as diverse as gourmet foods, biotechnology or the arts. They can play a central role in the development and growth of a local, regional or even national economy, by facilitating business development and expansion, helping to develop markets and creating jobs. Research into business incubators in the United States indicated that around 70-90% of incubator graduates, on average, remain successfully in operation following graduation from the incubator programme (Molnar et al., 1997).

3 Types of Business Incubators

The National Business Incubation Association classifies incubator programmes in various ways, with the primary distinction between non-profit and for-profit organisations. In the United States, in 2002, non-profit incubators were estimated to account for about 85% of the total U.S. incubator population of around 950 (Linder, 2002), and these are further split into three categories: (1) stand-alone incubators; (2) incubators that are programmes or departments of larger tax-exempt entities and operate within their tax statuses, such as university or government-run incubators; (3) incubators that work closely with other organisations whether for profit or not for profit, to achieve their missions.

Although non-profit incubation programmes generally have missions that focus on economic development outcomes, most for-profit programmes are set up to obtain a sizeable return on investments for their shareholders.

The NBIA recognises three major types of for-profit incubators, which are further categorised according to how investors anticipate obtaining a return on investment (Temali and Campbell, 1984). The first type anticipates return on investment from rents and service fees. This type of incubator generally adds a few company development services to what is basically a package focussed on office services and flexible real estate, completes the job and leaves. The second type of for-profit programme treats the incubator as a portfolio of investments and seeks return on equity holding in start-up companies. Corporate incubators, the third type, seek benefits primarily from spinning out technologies or spinning in mental or medical innovations with strategies. In addition, new hybrid models have married some of these elements.

4 Economic Development Goals

Business incubators can play an active role in local, regional and national economic development efforts. A business incubator, however, cannot transform an economy and must be integrated into broader economic policy reform, infrastructure investment and financing. Business incubators can be used for one or more of the following economic development purposes:

New business formation: New business formation is the most common economic development focus of business incubators around the world. These programmes focus on supporting entrepreneurs from business concept development to product launch. Their purpose is to nurture businesses until they are stable enough to operate without the day-today support of the incubator.

Business stabilisation: A number of countries around the world have begun to investigate ways that business incubators can be used to help existing small-to-medium sized enterprises that have become unstable, perhaps as a result of labour problems, new government regulations or policies, new competitors,

market changes or pressures associated with rapid growth. The purpose of these programmes is to provide business support services and guidance to help to stabilise the business and reduce the chances of failure.

Business expansion: A number of countries have also begun to use business incubators to help existing small-to-medium sized enterprises expand. These programmes provide services to help business owners improve operational efficiency, identify and access new markets, expand production capabilities, hire and manage labour and secure capital. The purpose of these programmes is typically to help businesses with one to five employees expand into businesses with 10-20 employees.

5 Growth and Numbers of Incubators

Although the first formal business incubator is believed to have been established in the United States in 1959, followed by a limited number of others opening over the next few decades, the concept really took off in the United States in the mid-1980s. At this time, the Small Business Administration (SBA) released a study concluded that the majority of new jobs were being created by small business, creating a boom in incubator development and resulting in the creation of the National Business Incubator Association (NBIA) in 1995.

During the 20-year period since the concept of business incubation programmes began to take root in the United States, the industry has grown rapidly and matured considerably, and there are now estimated to be more than 1400 business incubators operating in North America and 5000 worldwide (National Business Incubator Association, 2007). It is expected that the number of business incubators throughout the world will continue to increase over the next few decades as more and more communities, countries and private investors recognise the value of this effective tool for supporting new business formation and facilitating economic growth.

6 Business Incubators in the GCC States

In the GCC member states, efforts to support entrepreneurship through business incubators and similar facilities are on the increase. In Manama in the Kingdom of Bahrain, the Bahrain Development Bank and United Nation Industrial Development Organisation have established the Business Incubator Centre to support new business formation in the Kingdom of Bahrain in cooperation with the Commercial and Industry Ministry's Industrial Affairs. The programme has been built around an entrepreneurial trading programme, which includes classroom inputs with counselling and support services. Services offered include business opportunity identification and selection, organisation market information, business plan preparation, raising financial resources, obtaining approval clearance from the government and technology sourcing from other countries.

The Emirate of Dubai in the United Arab Emirates has recently established Dubai Internet City to foster the development of technology venture involving the Internet, information technology and other related technology sectors. In the Kingdom of Saudi Arabia, the King Fahd University of Petroleum and Minerals is investigating the development of business incubator in Dammam, and several organisations are investigating opportunities for developing a business incubator in Riyadh.

7 Aims and Methods

In developing countries including Kuwait and the other GCC member states, business incubators might be particularly valuable in helping to develop local economies, promote technology transfer, create new enterprises and generate jobs. There is potentially a wealth of information available about the characteristics and services offered by business incubators in the United States and other countries that might be used to inform the development of incubator programmes within these countries.

To tap into this information and to find out about the actual experiences of business incubators, an Internet-based survey and a small number of electronic interviews were conducted with members of the NBIA survey representing a wide range of countries worldwide. Data were collected by means of an electronic survey questionnaire and interview schedule administered to NBIA members via the World Wide Web. A structured survey questionnaire and an electronic interview schedule were designed and uploaded to an on-line survey Web site. The survey questionnaire was intended to provide quantifiable information on the characteristics of business incubators around the world, including geographical location, area of residential accommodation for businesses, sponsoring entities, goals of the programme, services offered, services required by clients, barriers and obstacles encountered and financial data. The electronic interviews were intended to collect more in-depth information about the operation and impact of incubators by drawing on the views and experiences of their managers.

After receiving permission from the NBIA to contact its members and ask them to participate in the survey, the researcher compiled a list of 711 NBIA members who were business incubators, and sent them e-mail invitations to take part in the survey. The e-mail contained a link to a questionnaire on SurveyMonkey, which is an on-line survey Web site. Participants were told the purpose of the project and received specific instructions for completing the questionnaire. The survey was made available at the SurveyMonkey portal beginning from 1 April 2006 for 30 days, at the end of which time the survey was closed and the hosting company collected the data and returned it to the researcher. The data did not include any identifiable information on those who had taken the survey. Ninety-two interview invitations were sent out to incubator managers at the same time as the survey invitations.

Of the 711 survey invitations that were e-mailed to NBIA members, 43 were returned as undeliverable, leaving a sample frame of 668. The total number of survey responses was 105, representing a response rate of about 16%. However, only 45 were completed in full, so data are available for less than 105 respondents on many of the variables.

Relatively little information was collected in electronic interview format because of a low response rate to the interview invitations: a total of seven people responded, but in the event only two people completed interviews. Relevant comments from the two interviews that were completed have, therefore, been incorporated into the following sections on the survey results.

Overall, the relatively low-survey response rate means that the results cannot be regarded as representative of all NBIA business incubator members. However, respondents did represent a wide range of countries and organisations and, as such, can be regarded as a diverse sample providing a good overview of the types and characteristics of business indicators and the range of services they provide.

8 Results

8.1 Location of Incubators

The countries in which the respondents' incubators were located. A total of 78 respondents answered this question, of which 66% ($N = 52$) were from the United States and the rest were broadly distributed over the globe. Twelve (23%) incubators were located in developing countries.

8.2 Client Catchment Areas

Of the 45 respondents who reported where they drew the majority of their clients from, the largest percentage 40% ($N = 18$) said that this was urban areas, while 31% ($N = 14$) said they drew their clients from suburban areas and 22% ($N = 10$) said that most of their clients were from rural areas. 15.6% ($N = 7$) said that they served a national catchment area, but very few (4.4%, $N = 2$) indicated they were multinational in scope.

One of the two interview respondents commented that their organisation could not afford to be too narrowly focussed in terms of their catchment area, particularly as they were based in a sparsely-populated area. The other also highlighted the importance of having a wide base of prospective tenants, indicating that incubators may need to draw their clients from a fairly wide geographical area to be able to survive economically.

8.3 Age of Incubators

A total of 79 respondents provided information on the time period when their incubator was founded. Nearly three-quarters (73%) had been founded in the period since 1996, with more than half (53%) founded between 2001 and 2006. Nearly 14% of respondents, however ($N = 11$), said that their incubator had been founded before 1990. Overall, these results indicate that many business indicators are very well established, and it can be inferred from this that they are likely to be contributing value to the economies and communities in which they are based.

8.4 Sponsoring Entities and Stakeholders

This section describes data about the sponsoring entities of the sample. Seventy-five of 79 respondents indicated they had a primary sponsoring entity, with academic institutions accounting for a third of all sponsors, followed by government agencies ($N = 19$, 25.33%). Economic development organisations also accounted for a significant number ($N = 16$, 21.33%) of sponsoring entities.

The interview respondents were asked a number of questions about their stakeholders and customers. When asked who they regarded as the incubator's 'customers', both indicated that these were defined fairly broadly to include their tenant companies, members of their Boards of Directors and stakeholders such as the city council's economic development officials. It was clear in both cases that the Boards of Directors played a leading role in managing the incubators, and it was seen as the main mechanism by which the incubator's stakeholders represented their interests and influenced the incubator's programme of work. One respondent explained that the board was responsible for approving the budget, setting policy and reviewing all applications for tenancy. In both cases, regular financial reports were submitted to the Board.

Both interview respondents also indicated that they had close links with local community organisations, including economic development and small business development organisations, and said that they were proactive in promoting awareness of the incubators role and developing community linkages.

8.5 Primary Functions and Priority Goals

The distribution of respondents is by their incubators' primary programme function. Just under half ($N = 40$, 43.96%) indicated that the primary purpose of their incubator was to foster technology companies, followed by more than a third ($N = 33$, 36.26%) that indicated their programme could best be described as supporting a mixture of businesses (mixed use). The rest described their programmes as service-business oriented ($N = 4$, 4.4%), Web-related ($N = 3$, 3.3%), manufacturing and community revitalisation ($N = 2$, 2.2%) or other ($N = 7$, 7.69%).

The 45 survey respondents answered the question of distribution of responses regarding the priority goals of incubators. Respondents were asked to rate the importance, on a 5-point scale, of a number of listed goals from 'very high' to 'very low'. Of the items listed, 'creating jobs in the local community' was rated 'very high' by the largest percentage of respondents (58%, $N = 26$), closely followed by 'enhancing the community's entrepreneurial climate', ranked as a 'very high' priority by 56% ($N = 25$). Other goals that were ranked as 'very high' by more than a quarter of all respondents were 'commercialising technologies' (42%), 'building or accelerating growth in local industry' (38%), 'diversifying the local economy' (31%) and 'supporting other entrepreneurs and the community' (27%). The survey results showed that

'revitalising distressed neighbourhoods' and 'moving people from welfare to work' were not regarded as important goals by incubators, with more than half of respondents giving each of these a low or very low priority in total, and a further third indicating that they were neither high nor low priority.

Although one of the interview respondents indicated that they had clearly defined goals and objectives, the others said that the goals of their incubator were currently ill defined. Although it is not known how representative this respondent is of incubator managers generally, it is likely that incubators who do not have well-defined goals are not performing as effectively as they might if their efforts were more focussed. The fact that the majority of respondents were able to answer this question, however, suggests that most incubators do have fairly well-defined objectives, whether or not these are formalised in writing.

Both respondents indicated that although they had formal mechanisms to monitor the incubator's performance, these currently consisted merely of financial reports to the Board. Again, it is not known how representative these were of other incubators. The interview respondents expressed a recognition that as they grew they would need to define their goals and objectives more clearly and be more sophisticated in their monitoring of these.

8.6 Provision of and Demand for Services

The numbers and percentages of respondents whose business incubators offer particular types of services. Forty-four respondents answered this question. The results indicated that most of the incubators offer a wide variety of services, with the majority offering business help, networking, shared administrative/office services, linkages to strategic partners and the like. Very few offered funding ($N = 8$) or loan guarantee programmes ($N = 2$).

THE reports the numbers and percentages of respondents who believed their incubator clients were in need of various listed services (Almubarak, 2008). A total of 41 replied to this question. All respondents indicated that their clients needed marketing assistance (100%), while the vast majority need help with business (98%), linkages to strategic partners (95%) and networking activities (90%). Overall, the results indicate that incubator clients are seeking help with a very wide range of business activities – with the exception of childcare services, which were apparently not sought by any clients, at least a quarter of all respondents in each case said that their clients were in need of each of the listed services.

When asked about types of entrepreneurial training offered, the two interview respondents mentioned basic business skills, business planning and financial management. They indicated that the main reason that some services were not offered was the cost. When unable to offer services themselves, the incubator clients were often referred to other agencies such as the Small Business Development Center, the local community college and the university, one respondent said. Both incubator managers interviewed stressed that they saw it as their own responsibility to adapt existing programmes or services to meet new needs and shifting priorities as their own, with input from other key stakeholders and approval from their Boards of Directors.

8.7 Client Performance

The most likely reasons why clients graduating from respondents' incubator programmes. A total of 45 respondents answered this question, and they could give more than one response. The most common reasons for graduation were outgrowing the space, spending the maximum time allowable and having reached mutually agreed on milestones ($N = 30$), followed by growth rate exceeding the limits of the programme and achieving a liquidity event ($N = 16$). Acquiring an experienced management team ($N = 9$) and attracting another source of funding ($N = 6$) were the least common reasons for graduating.

How often the incubator clients encounter various types of obstacles in their performance, according to the survey respondents. Respondents were asked to rate how frequently these were encountered by their

clients. Lack of financing was rated as an obstacle experienced either 'Almost Always' ($N = 19$, 44%) or 'Frequently' ($N = 15$, 35%) of the respondents. This was followed by lack of expertise in entrepreneurship and lack of personal economic resources. Lack of personal financial resources was a problem 65% of the time; inadequate management was also reported to be a frequent problem by 56% ($N = 24$).

8.8 Developing Countries

The characteristics of the 12 incubators in the survey sample are based on developing countries. Of these, three were located in South Africa, while the rest were the sole respondents from nine other developing countries. Developing country incubators were diverse in terms of their client catchment areas, with two being multi-national in scope (Singapore and Cyprus), while others either served a national client base or drew clients from an urban area). Most developing country incubators were technology-focussed. More than half ($N = 7$) of the developing country incubators for which information was provided ($N = 11$) were sponsored by academic institutions, with the remainder divided among economic development organisations ($N = 2$) and for-profit entities ($N = 2$).

The majority ($N = 9$) of the developing country incubators had been founded before 1995; only one had been founded within the last 5 years, so most were already well established. The gross square footage of the developing country incubators ranged from a high of 538,195 sq. ft. (Mexico) to a low of 1000 sq. ft. (Palestine), with a median area of 9068 sq. ft., and this was identical to the range of all incubators in the sample.

9 Discussion and Recommendations

Small business incubators are business assistance centres that provide start-up companies with a supportive, affordable environment and a range of administrative, consulting and networking services. Fundamentally, these programmes, which may be managed by economic development agencies, local governments, for-profit businesses or colleges and universities, function as 'nests' in which to hatch and from which to fledge new companies. Incubators offer advantages such as low-cost space, shared equipment and services and the friendship and support of other entrepreneurs. Incubators usually provide space to a selected group of tenants, who remain for 2-3 years and then graduate to commercial space.

The results of the survey and interview showed that small business incubators vary widely in size, sponsorship and budget. Most incubators serve a locally or nationally based clientele and are primarily directed at fostering small technology businesses for the primary purposes of encouraging employment growth and economic development in the areas they serve. Also, most incubators offer a variety of services to entrepreneurs. A comparison of the survey results regarding the services commonly provided by incubators, with the perceived needs of clients reveals that while incubators are meeting the needs of entrepreneurs in several important ways, a number are also failing to meet the needs of these small companies in other respects. This is also reflected in the findings regarding the commonly encountered obstacles of incubator clients, which were perceived by respondents to include lack of financing, lack of expertise in entrepreneurship, lack of personal economic resources and inadequate management. Given entrepreneurs' pressing needs for capital (both business and personal) and management know-how, it would appear that the provision of space and office services, while helpful, should not be the primary concern of incubator clients.

To succeed, small business incubators need to help their clients succeed. This can be accomplished by bringing the services they provide into alignment with the needs of the entrepreneurs who are their clients. However, as was noted in the previous chapter, most survey respondents identified the primary purpose of incubators as providing a base for economic development and job creation. This suggests that incubators also need to take into account the needs of the community as well as those of the clients if they are to

succeed, as reflecting in one of the interviewee comments, that the incubator ‘must have community buy-in or it will not succeed’. Although the immediate goal of small business incubators is to support the growth of small businesses, therefore, it is recommended that their ultimate goal should be to foster economic development and job growth by enabling small businesses to become big enough to become significant taxpayers, market makers and employers. The implication of this is that business incubators will have multiple stakeholders, including the sponsoring entity, economic development organisations and other community groups, all of these whom need to be involved in and consulted on the incubator programme, for it to succeed.

Another element in the success of incubators is the success of clients. One way to align the interests of incubators and clients is to give the former a stake in the latter. For example, the incubator can receive an equity stake in the small business in exchange for office space, cash and business support. That is, incubators can become the venture capitalists that their clients need while having full visibility into the small business by being on site to help get the business started.

As noted by the interviewees, incubators themselves can have business problems, just like any other business. These include the failure to define goals of the incubator, failure to get community buy-in and occupancy/cash flow issues. It is, therefore, recommended that incubator managers and incubator sponsors, like the clients they serve, should perform a feasibility study, formulate a comprehensive business plan and monitor their performance against this plan, evaluating the results and realigning their goals as necessary. Stakeholders also need to buy into the business objectives of the organisation.

Despite the National Business Incubator Association’s position asserting the importance of operating incubators as enterprises that should become self-sufficient, profit-oriented organisations, many publicly funded incubators are not earning profits (Bears, 1998). Financial dependency forces incubators to operate in a politically charged environment where they must constantly demonstrate the ‘success’ of the incubator and its clients to justify continued subsidisation of incubator operations with public funds. Such a politically charged environment can tempt incubator industry stakeholders to under report incubator failures and over-report successes. Open communication between stakeholders and clearly-defined shared goals, including financial goals, are a prerequisite for the success of business incubators.

10 Recommendations for Kuwait and the GCC Member States

When assessing the viability and likely long-term effectiveness of business incubator programme in Kuwait and the GCC member states, the following factors must be considered:

1. Does a city or region have a sufficient level and diversity of value-added services (for example, business coaching and mentoring from experts in the field, access to professional services, access to capital) suited to stimulate the formation and growth of businesses in one or more target industry sectors, or can these services be established as part of the programme?
2. Are there sufficient resources and time allocated to the market for an incubator to develop if a sufficient market does not already exist? It may be necessary to grow the number of entrepreneurs in a specific industry sector (for example, chemical and chemical product, advance manufacturing communications technology, precision tooling and matching).
3. Is the catchment area likely to be able to generate a sufficient level of new business activity to provide a new group of businesses very 3-5 years, depending on the time need to properly incubate client businesses?
4. In the formative stages of development, many incubators rent space to larger established companies in the industry sectors targeted for development by the incubator. These companies, commonly referred to as ‘anchor tenants’, can provide valuable resources to the incubator in the form of mentoring and

strategic alliances with incubator clients in addition to paying market rate rent. Kuwait and the GCC member states might therefore consider this option.

5. Are there suitable indubitable business sectors that are prone to clustering (typically locate in close proximity to each other) and amenable to sharing business and business coaches or mentors? This may be challenging in Kuwait due to the historic practice of keeping business information private.

It is proposed that Kuwait and the other GCC member states might consider adopting an expanded version of the incubator concept tailored to their local environments and economic development needs. This might take one of the following forms, for example:

1. *Incubation systems:* An incubation system would integrate multiple incubator programmes located in strategic cities through out Kuwait. This is a model that could likely be used in Kuwait to link major academic and industrial centres, established programmes such as the Kuwait Institute of Scientific Research and Kuwait Foundation for Advancement of Science and Academic Partners, and incubators in the United States and GCC.
2. *Incubators without walls:* With this incubation model, services are delivered to businesses wherever they are located rather than in designated facilities. Services are offered via a pool of experts that visit businesses and/or through communication and information disseminated via the Internet. This model may serve as a precursor to developing facility-based incubators in other cities within Kuwait, with a central incubator being identified as a repository of serves and information.
3. *Concept incubators:* These incubators foster the creation of business ideas or products and then build managerial and operational frame work around them to create viable business. Essentially, they start the incubation process earlier than is normally the case when a concept for a business can be identified but the earliest formative processes and ongoing business concerns have not yet occurred.
4. *International trade incubators:* An international trade incubator model would provide assistance to small development teams from established foreign businesses seeking to do business within Kuwait. Such incubators would provide a specific type of support to firms seeking to find a foothold in new markets.

References

- Almubarak, H., (2008). 'Procurement of International Business Incubation - Quantity and Qualitative Approaches', Melrose Books, www.melrosebooks.com.
- Bearse, P. (1998). 'A question of evaluation: NBIA's impact assessment of business incubators', *Economic Development Quarterly* Vol. 12, No. 4, pp. 322-333.
- Linder, S. (2002). 'State of the Business Incubation Industry', NBIA Research Series, Athens, Ohio.
- Molnar, L., Adkins, D., Yolanda, B., Grimes, D., Sherman, H. & Tornatzky, L. (1997). 'Business Incubation Works', NBIA Publications, Athens, Ohio.
- National Business Incubation Association. (2007). 'Business Incubation FAQ'. http://www.nbia.org/resource_center/bus_inc_facts/index.php. Accessed on 18 May 2007.
- Temali, M. & Campbell, C. (1984). 'Business Incubator Profiles: A National Survey', University of Minnesota, Hebert H. Humphrey Institute of Public Affairs, Minneapolis.