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Business Incubators in the Arab World: A comparative study of Jordanian and UAE Business Incubators

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Abstract

The Business Incubator (BI) has proved to be an effective tool for nurturing Entrepreneurship and Small and Medium Enterprise (SMEs). This has benefited to many developed countries through the reduction of unemployment, diversifying economies and creating wealth. BIs provide timely help and support for new ventures, and have the potential to create and develop entrepreneurial talents at the micro level, as well as fostering an environment for entrepreneurship at the macro level.

Purpose The main purpose of this paper is to determine whether the economic conditions and business strategies in the Arab countries are favourable for business incubation, and to suggest possible directions for establishing and implementing more business incubation in the Arab countries.

Methodology This study adopts a quantitative strategy and uses a snowball approach for the distribution of designed questionnaires to the incubation units in Jordan and the UAE.

Findings The findings of the research contribute to the literature of business support services, innovation and entrepreneurship development, which enhances the knowledge and skills within the incubation units.

Originality/value The study ensures the acceleration of the successful development of young entrepreneurs and their businesses in the Arab countries through the establishment and implementation directives for BIs.

Key words Arab World, Business Incubators, Jordan, SMEs and UAE

Introduction

Start-up Small and Medium Enterprises (SMEs) are uncertain in nature. Entrepreneurs, although technically competent, do not always have the requisite financial, managerial, marketing or administrative capabilities needed to reduce the start-up risk. New companies often fail because entrepreneurs do not have these skills and they have not hired people with these necessary skills (Masadeh, 2008). The role of SMEs in growth and development is globally recognised. It is demonstrated by the quantity of studies, research and literature dedicated to the subject. Both in industrialised and developing countries, governments have been playing a key role in defining policies, programmes and instruments which support the development of small and medium enterprises (Scaramuzzi, 2002). Unfortunately, the majority of any start up business's capital is spent on administrative and logistics expenditures (utilities, secretarial services, accountant fees, and on employees' salaries, whether full or part time employees), market studies and consultations, which may not be in the entrepreneur's priority. Therefore, SMEs may face significant problems and obstacles due to their lack of experience in dealing with these challenges (Hamad, 2007). SMEs need to adopt modern technology to promote their business.

The emergence of new technologies and the increasing globalisation of research, development and investment have significantly changed the nature and scope of industrial competitiveness, where the pace and pattern of technical changes have altered sharply, and many countries are being left further behind (TID, 2001). Nevertheless,

several industrialised countries now have the technical infrastructure and skills for major innovations; for all the others, advanced technologies, when adapted, applied, and absorbed, can help improve people's lives. Technological progress and entrepreneurship have dramatically changed the global economic landscape (Lalkaka, 2002). These forces operate in the framework of open markets, government deregulation and privatisation, together with fresh concerns for the human condition, good governance, environment preservation, gender balance, and growth with equity (Lalkaka, 2001). The technology helps people to produce more innovations. According to Smith (2010:5) innovation is, "The first commercial application or a new process or product or innovation is the successful exploitation of ideas". Innovation plays an important role in the development of successful economies (O'Riordan, 2008 and Hamad and Arthur, 2011). Innovation is also widely recognised as a key factor in the economic development of a nation (Markatou, 2011), especially countries and regions that lack the capacity to innovate. Consequently, there is a lack of ability to improve their positions in the global market. Innovation helps countries and regional groupings achieve development, in the industrial and service sectors (United Nations, 2005). Those countries must encourage the growth of innovative and service businesses. Innovation can be a key motivator of growth, regardless of the conditions of the larger economy. It has been a topic for discussion and debate for many decades. In the nineteenth-century, some economic historians observed that rapid economic growth was the result of technological

progress (Trott, 2005). However, the policy interventions can play an important role.

Interventions aimed at creating an environment in which businesses can flourish are a central element of public policies. In order to improve the competitive environment of firms, large amounts of finance should be committed to the building and reinforcing of technological infrastructures, namely into the implementation and development of business incubators Vedovello and Godinho, (2003). One of the mechanisms employed to nurture small firms for more than three decades has been, "business incubation". According to the National Business Incubation Association, NBIA, (2011), Business incubation is a business support process that accelerates the successful development of start-up and fledgling companies by providing entrepreneurs with an array of targeted resources and services. These services are usually developed or orchestrated by incubator management and offered both in the business incubator and through its network of contacts. A business incubator's main goal is to produce successful firms that will leave the programme financially viable and freestanding. These incubator graduates have the potential to create jobs, revitalise neighbourhoods, commercialise new technologies, and strengthen local and national economies. Today, a lot of attention is paid to technology transfer and commercialisation. For instance, technology incubators, technology parks, and most governmental actions are designed to support innovation creation and industrial deployment (Mazurkiewicz, et al. 2011). Many governments view business incubators as a dynamic tool for promoting new SMEs with the macro objective of economic development and job creation. The major role of Business Incubators is to help entrepreneurs start or expand their business by

providing various functions in a supportive environment (Alsheikh, 2009). The establishment of technology business incubators is one measure of nurturing nascent ventures by providing focused counselling and facilitation services together with a smart workspace and shared office facilities (Lalkaka, 2002).

As a broad approach to enterprise development, business incubators are considered to be a positive and effective means of public intervention. Businesses generally report satisfaction with the services and increases in turnover are higher than non-incubated businesses (Nahavandi and Chesteen, 1988). International reports indicate that most of the Arab countries, which includes Libya, face numerous challenges related to the inefficiency of their goods, labour, and financial markets, as well as underdeveloped infrastructures and low levels of technological adoption and Innovation (Hamad and Arthur, 2011).

The research is designed to be a descriptive study, given that it aims to describe what exists, with regard to exploring the rationale for the provision of business support, specifically business incubation, as practised by Arabic business innovation centres, and investigates the degree and extent to which their activities impact on the performance of assisted businesses.

The outcomes of this paper contribute to the literature and thorough understanding of the incubation concept and processes especially those best suited to the Arabic situation. In addition, fully researched academic knowledge on the entire incubation system will lead to addressing the implementation gaps not only in Jordan or UAE, but also regionally.

The problem

According to the Global Competitiveness Report (Schwab 2010) produced by World Economic Forum 2010-2011, it was concluded that most Arab countries face numerous challenges related to the inefficiency of their goods, labour, and financial markets, as well as an underdeveloped infrastructure and low level of technological adoption and innovation.

The SMEs contribution to innovation and economic growth is part of the economic system, and in the light of SMEs policies reviewed throughout the world, whether in developed countries or in the others, in particular the Arab States, which are in transition, such as Egypt, Tunisia and Libya, the SME policy rationale is strikingly consistent in its coherence and consideration of other social and economic issues. For instance, the goals are to provide employment opportunities for the elderly, youth and women, and the creation of new lifestyles, supporting the development of new forms of work organisation and new working arrangements, fostering innovation and entrepreneurship. One of the more popular techniques to help entrepreneurs and SMEs survive their early stage and grow and prosper in the community is so-called business incubators. The small business incubators provide physical facilities of various sizes of offices or office suites, warehousing and manufacturing space, common loading docks, shared board or meeting space, kitchen facilities and a common reception area. The incubator provides a receptionist to greet visitors and to assist tenants in using a shared copier, fax, and audio-visual equipment and often times computers (VBIA,2011).

Aim and objectives

The research investigates the development of business incubation and

the policy rationale for the modality, specifically the role and importance of SMEs, and includes an investigation of business incubation as developed and practised by the Arab countries and its impact on incubated businesses. In addition, this research will identify:

- *The types of incubators currently in operation in Jordan and UAE .*
- *The type of incubators and the financial model in Jordanian and UAE.*
- *The funding, target group and target sectors of incubators in Jordan and UAE.*
- *The contribution of SMEs within the incubators to the economy in the incubation units in Jordan and UAE?*

Research design and methodology

This study is designed to be a descriptive study, given that it aims to describe what exists, with regard to exploring the rationale for the provision of business support, specifically business incubation as practised by Jordan and UAE, and investigates the degree and extent to which their activities impact the performance of assisted businesses. Hence, this study is constructed within descriptive and analytical designs, as a case study design framework with cross-cultural data. A questionnaire was developed and distributed to some of business incubators in Jordan and UAE.

As a result of difficulties contacting all the incubator managers in the Arab Countries, I also focused on a specific geographic area (Jordan and UAE). The sampling approach used was "snowball sampling", which means that a number of incubators that fit the definition were asked to fill in the questionnaire, and then they forwarded the questionnaire

to others they know matching the same definition(Welch, 1975). Using the snowball sampling method, five responses were obtained out of six required sample size, leading to a response rate of around 83%. I also interviewed 10 leading figures in Jordan to obtain information about SMEs, Entrepreneurship and BI in Jordan. Comparison of Jordan and UAE BIs This section compares Jordanian and UAE Business Incubators (BIs) along various dimensions by drawing on the results of the questionnaire. Based on framework developed by Mian (1997), the analysis was organised around three sets of variables:

- Description of incubator target groups, financial models and target sector of BIs;
- The selection Process;
- The services; and Performance outcomes, selection and graduation.

It is to be emphasised that central government is directly involved in the implementation and the monitoring of BIs in both Jordan and UAE, that is: BIs are mainly supported by public funding (they are non-profit organisations in Jordan), whose function is to reduce the cost of creating businesses by providing services, with the ultimate goal of creating jobs and sustaining regional economic development. Although there is also private sector BIs in UAE, half of BIs are promoted by the central government and, therefore, the researcher takes them for comparison with Jordan’s BIs in this part. However, the researcher also intends to survey BIs promoted by both the government and the private sector in the next stage of this research to have a proper understanding of the BI environment in both countries.

Description of incubators

Describing the incubators, in Jordan they were mainly private (40%) and Consortium (40%), whereas in UAE incubators were mainly described as governmental (75%) and private (50%). Further description of the incubators in both countries revealed that in Jordan they mainly follow a non-profitable financial model (80%) and only 20% stated they follow a profitable model. In UAE 50% stated they follow a profitable financial model and 50% stated a non-profitable model. See figure 1 below.

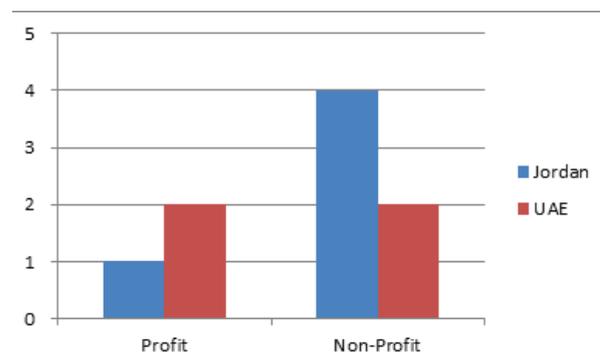


Figure 1: The financial model adopted by Jordan and UAE incubators

Based on Figure 2 below, incubators appeared to target rural enterprises (40%) and urban enterprises (40%). Women (40%) in Jordan. In UAE the main focus appeared to be on Youth and students (50%) or other target groups (50%).

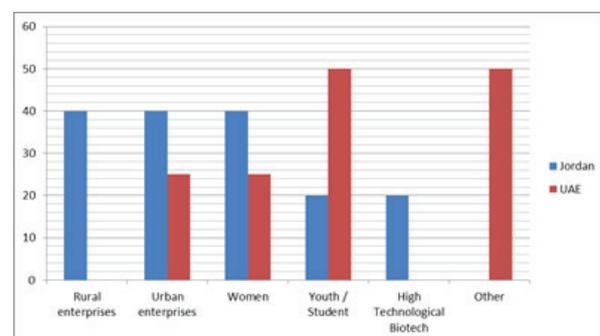


Figure 2: The target group of incubators

The focus of the business incubators in Jordan appeared to be mainly on agriculture (%40), manufacturing (%40), and none of the incubators appeared to focus on healthcare. However, in UAE, the main focus appears to be on other sectors (%50) with no focus on tourism, healthcare or energy. Further description of the results can be observed in Figure 3.

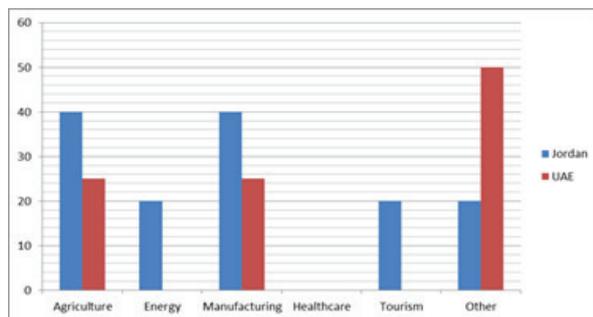


Figure 3: *The main focus of incubators*

Selection Process and Application
 This part of the analysis looks at the selection process and application for new applicants. Responsibility for the assessment of new applicants, in Jordanian BIs, selection is often organised based on the project and the clients. The selection team comprises incubator staff and the committee and the manager of the incubators. There are several criteria depending on the role of each incubator; for example, personal attributes idea feasibility, personal characteristics, project applied-idea, profitable business and qualification of tenants. Whereas in UAE, the selection of new applications is sometimes relies on the managers or the partners of incubator. The criteria used by the UAE incubation unit are new business, ideas level, market size, competitive advantage and new idea. In Jordan %100 of the incubators rely on a committee to select new applicants; however, in UAE it appears to be different, the majority (%33.3)

referred to committees as the method of selection and equally they stated that some new applicants are recruited by managers (%33.3) and other methods (%33.3).

The Incubation Programme and Services

This part of the analysis section refers to the incubation programmes and services offered. Firstly Incubators in Jordan and UAE were asked about the type of services they provide for their clients. As can be seen in table 1 they were asked to rate 10 possible services and how important they think such services are in their incubators. Overall it was evident that all the services were more important in Jordan compared to UAE. In the table 1 below it can be seen that there is an overall agreement that most services are important regardless of the country but there is a tendency among the UAE incubators to rate the services with lower importance compared to their Jordanian counterparts.

Governance Structure

In Jordan, BIs, at the macro-level, are under the direction of central government, namely the Jordan Enterprise Development Corporation (JEDCO). But at the micro-level, they are governed by local government, sometimes with participation from universities, state-owned enterprises and other sponsors. These founders and funding institutions have representatives on the BIs' Board of Directors, which is responsible for making policies and monitoring BIs.

In UAE, it has been establishing an organisation to support SMEs (Mohammed Bin Rashid Establishment for SMEs Development). The main objectives of this institution are:

- *Promote entrepreneurship by supporting innovation and research.*
- *Enhance employability by providing access to quality education and professional development programmes.*
- *Support business incubators in UAE.*

The Business Incubation Centre is also one of the pillars of Mohammed Bin Rashid Establishment for Young Business Leaders. The Centre aims to provide an ideal working environment to aid in creating and developing small and medium projects, where the centre provides the ideal environment for entrepreneurs of UAE nationality to start their own private business and secure all the support they need to effectively manage and grow their enterprises at a very reasonable cost. In recent years there has been increasing involvement of various government departments in setting up BIs. Various State (provincial) Governments in both countries are also making strong efforts by setting up infrastructure and allocating funds to develop entrepreneurship. The government agencies are stepping up their effort with the aim of setting up BIs.

Business Incubators Funding System

Incubators in Jordan 80% are non-for-profit organisations; local governments provide subsidies to SMEs incubate. At the very early stage, governments often offer BIs free land and initial construction funds. For private BIs, the funding mainly depends on sponsors themselves. Bank loans are often easily accessible in the early incubator construction stages. In UAE %50 of the business incubators are non-for-profit supported by the government or local governments and also there are private business

incubators their funding depends on sponsors and government as well. Services Provided by BIs to Clients Jordanian and UAEs BI provide business development services at the pre-incubation and incubation period;

- 1. Assistance with manufacturing practices, processes and technology*
- 2. Comprehensive business training programs*
- 3. General legal services*
- 4. Intellectual property management*
- 5. Marketing support (advertising, promotion, market research)*
- 6. Assistance with product design and development practices, processes and Technology*
- 7. Support with accounting or financial management*
- 8. International trade assistance (import/export facilitation)*
- 9. Help with presentation skills*
- 10. Legal advice on international markets regulations*

Overview of Performance of the Case Studies

In this section, some outcomes are showed that characterise and indicates the performance of the incubators. The number of incubated companies can be used as indicator, accumulated number of graduated tenant firms, the number of tenant employee and also the patents or copyright have been registered for start-ups. The table below provides a number of indicators about the growth of BIs in Jordan and UAE between 2010 and 2011.

Table 1. *The Development and Performance of BIs in Jordan and UAE (2011)*

Statement	Jordan	UAE
Current Business	38	60
Business Graduated	22	17
Jobs created	648	216
Patents registered	4	2
Copyright registered	9	3

Results

The overview of comparison of the BIs in Jordan and UAE revealed that there are number of similarities and differences in the BIs environment in Jordan and UAE. Similarities include objectives, incubation programme is supported by government and private sector, funding of new ventures, and various basic services provided to the clients. The differences include nature of structure and governance, funding of BIs, value-added service and specialists services provided by BIs to the clients. In addition, there is a big difference between Jordan and UAE in terms of number of employees of clients and the target sector as well. Although, both Jordan and UAE were helped to develop technology incubators under the initiative and support of the governments, both countries still struggled with a small number of incubators as compared with other successful incubation programmes. The findings of the research indicate that provide case study examples of business incubators in Jordan and UAE. In addition the provide support for further sources of

information and highlight the business incubation programme as a model for demonstrating economic impact. And provide information on business incubation as a tool for fostering and strengthening innovation and entrepreneurship.

- 1. Businesses that have been through an incubator programme are far more likely to succeed in the long term.*
- 2. The UAE and Jordanian's incubator programmes are designed to accelerate the successful development of young entrepreneurs and their businesses through an array of support resources and services.*
- 3. Launching incubation programmes is crucial for technology innovation and exporting tech-based products: the technology incubator can form a supportive component of a national innovation system.*

Conclusion

This paper presented an overview comparison of BIs in Jordan and UAE which provides an overall understanding of the BI environment in these two emerging economies. The paper mainly focused on: the objectives, structure and governance of incubators, selection of tenants/incubatees, funding for incubators and tenants, services provided by incubators, performance and outcomes.

This research clearly demonstrates the need to raise awareness of the importance of innovation and entrepreneurship for economic development and business incubation as an important tool for reaching this goal of contribution of SMEs within the incubators to the economy in the incubation unites in Jordan and UAE.

This has clearly been demonstrated by this research. Furthermore special programmes and schemes to improve the effectiveness of incubators should be implemented. Development agencies like Development Banks should be directly involved in as a key player in establishing incubators in the Arab World.

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