

## Business Incubators – Favorable Environment for Small and Medium Enterprises Development

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**Abstract.** *The biggest problem for many small and medium enterprises (SMEs) is not the idea or the product provided and neither its customers, but their needs. High prices of production and office space are critical to the survival of a small business. Incubators come as a response to the needs of small and medium enterprises in key steps of a business, such as initiation and market penetration. An incubator aims to have a positive effect on the economic health of an area, of a community.*

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## 1. Concept and models of business incubators

The first definition of business incubator, was given in the workshop “Best Practices in Incubator Infrastructure and Innovation Support” (Helsinki, 1998) that it is “a place where are concentrated in a limited space newly created companies. Its objective is to increase the chances of development and survival of these firms by providing a modular building that is equipped with the necessary utilities (telephone, fax, computer) and where it is provided managerial and services support. The main aim is to develop the local area and create new jobs.” (European Commission, 2002, Benchmarking of business incubators, Centre for Strategy and Evaluation Services).

Another definition of business incubators shows that “business incubators is a dynamic process of business development. This term covers a wide range of processes that help companies lower failure rate in the initial phase and accelerates the development of those who have the potential to become generators of jobs and wealth. Incubators provide three main ingredients for developing a successful business: an entrepreneurial environment and training, access to mentors and investors, visibility in the market” (National Association of Business Incubators, US).

Therefore, developing a favorable environment, sustainable, support for these companies to grow and become competitive on the market is the essential purpose of an incubator.

The concept of incubators has grown over time, these can be classified according to several criteria. After the source of financing, there are incubators financed by the state (ministries, state universities, research centers) and private (Chambers of commerce, private universities, associations). After the operational model, there are “Bricks and mortar” and virtual incubators. The first ones provide facilities related to physical infrastructure, the incubation taking place in a specially designed building. The virtual incubator, called “without walls”, do not provide a specially designed space (buildings) and services provided are offered through the Internet. If we analyze the structure of services provided by incubators, then these are divided into five categories. Traditional incubators are those who aim to develop companies that can record a quick change of production technologies (textile, shoes). Technological incubators support the companies whose products or services have appeared after some scientific research (biotechnology, computer, electronic, etc.). Cultural incubators support cultural activities (music, sculpture, photography), social incubators support activities which are coming from social projects. Business incubators in agriculture are those that encourage technological innovation in agriculture. Considering the location, there are incubators in

urban areas (usually located in cities, technology and traditional incubators), incubators in suburban areas (located around the city) and incubators in rural areas (whose development is closely linked to agriculture production centers).

“New economy” incubators are the latest types of incubators that have emerged and are based on access to modern technological means. The difference between them and the traditional ones is that the “new economy” incubators take into account the strict criteria for acceptance the companies in the incubator and are based on the highest technology.

## 2. Business incubators at international level

Charles Mancuso is the one who established the first business incubator in Batavia, New York, in 1959, the incubation process has become an industry in the '80s.

In North America there are over 1.400 incubators, distributed as follows: in the United States are 1.115 incubators, Mexico has 191 incubators, and 120 incubators in Canada. Most incubators are nonprofit entities, affiliated with universities. These programs have supported over 27.000 companies, creating 100.000 jobs in 2007. Incubators are designed to highlight the objectives that entrepreneur must take into account in developing a business: creating jobs, economic profitability and technology transfer. In Brazil (Latin America) there are 400 business incubators.

Table 1

**The number of incubators distributed on areas**

Region	Number of incubators
North America	1,400
Brazil	400
South East Asia	1,500
Germany	400
France	250
United Kingdom	300

**Source:** <http://www.nbia.org/>.

In Southeast Asia are 1.500 business incubators. China is the one who founded the largest incubation program among developing countries worldwide. Most business incubators in China have been financed by the Government, private funds are used very rarely. In Japan there are a total of 203 business incubators, which offers classic services.

In the European Union, the first position, considering the number of existing incubators are occupied by Germany, France and Britain. In late 2006,

according to statistics, the number of incubators in Germany was 400. On the territory of France, there were a total of 250 business incubators in 2009 and in Great Britain the number of business incubators has reached 300, covering 12.000 companies.

The table below shows the performance of business incubators according to a set of criteria.

Table 2

Criteria	Year 2006
Public financing	48%
Incubator space – m <sup>2</sup>	5,400
Employment rate	81%
Jobs created/incubator	48.7
Expences for work	14,000 euro

**Source:** [www.cses.co.uk/publications/BenchmarkingBusinessIncubators](http://www.cses.co.uk/publications/BenchmarkingBusinessIncubators).

Performance of business incubators take into consideration several criteria such as financing, incubator space, employment rate, number of jobs created by each incubator, and expenses for work.

Table 3

Country/Region	Survival rate
US	85% continue to operate after two years
Europe	89% continue to operate after three years
Germany	90% continue to operate after three years
Brazil	80% continue to operate after three years

**Source:** [http://siteresources.worldbank.org/INFORMATIONANDCOMMUNICATIONTECHNOLOGIES/Resources/ChapterKhalil\\_Olafsen.pdf](http://siteresources.worldbank.org/INFORMATIONANDCOMMUNICATIONTECHNOLOGIES/Resources/ChapterKhalil_Olafsen.pdf).

The main objective of these incubators is increasing the period of survival, success during the first critics years. Statistics show that in Brazil, 80% of the incubated companies have survived the incubation period, while in Germany, their rate is higher, reaching 90%.

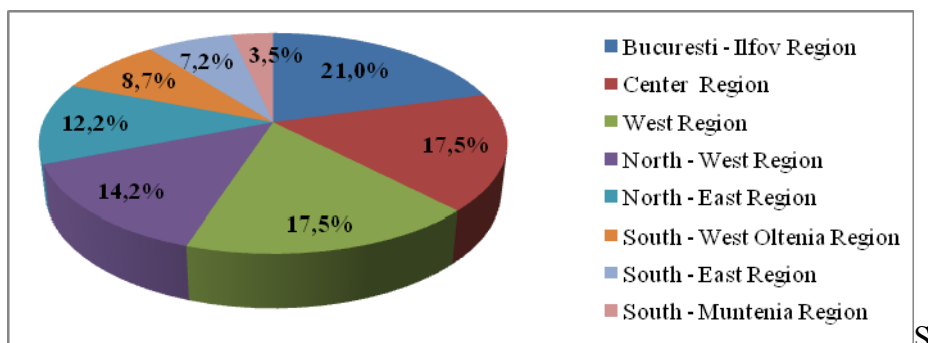
### 3. Business incubators in Romania

In our country, business and technological incubators are based on public sources and sources from international bodies such as the European Commission, World Bank, International Bank for Reconstruction and

Development. The latter were obtained using programs for local economic development, entrepreneurship and small and medium enterprises.

The economic and legislative situation allowed to appear business incubators since the 90s in some areas of the country, such as Sibiu and Braila. First Technology and Business Incubator Center was created in 1992, with the Ministry of Research and Research and Design Institute for Machine Building Technology. In the 90s there were created 16 incubators, but only one or two have survived until these days.

In 2010, in Romania, the number of business incubators was about 60. They work in various fields such as consulting services, IT, biotechnology, biomaterials, transfer of know-how, scientific research, transport services. The chart below presents the share of existing business incubators in our country by regions.



Source: own processing.

**Figure 1.** The share of business incubators by regions of development, 2010

Most incubators are location in Bucharest-Ilfov region, and another 20 are being located in the Central Region and Western Region (about 10 incubators in each area). After an analysis of business incubators, distributed over the eight regions of development, the following issues can be presented:

- services provided by incubators are consulting services, the renting office space, security and protection services, training, access to utilities (electricity, heat, water, gas), telecommunications services (telephone, fax, e-mail, internet), administrative services;
- incubators located in the eight regions of development led to the creation of 3,000 jobs, most of them being recorded in the South-West Oltenia and Center;

- 1,130 companies were hosted by the approximately 60 business incubators, they recorded a significant share in the South-West Oltenia;
- most developed area is Bucharest-Ilfov, where there are 12 business incubators, while in the South-Muntenia are located just two business incubators;
- incubation period is on average two years.

Incubator manager is the one who manages the incubator and is chosen following an assessment, taking into account a number of criteria set by a specialized committee. This is usually a company or a nongovernmental organization.

Among the tasks of the administrator are following: responsible for management and business technology incubator, provide the necessary staff for services; develop activities to attract investment, exploit all legal benefit incubation facilities, enter into contracts to provide services to residents incubator, represents the incubator in relations with local authorities. Thus, to fulfill the above tasks, an administrator must have good qualities such as entrepreneurial skills, to assume the risk, responsibility, perseverance, teamwork, and ability to manage and settle conflicts.

#### 4. Soroca Business Incubator – a role model?

Soroca business incubator was implemented under the “Entranse 2 Your Business” by a scientific-technical organization in Norway (SINTEF) with the Organization for Small and Medium Enterprise Development (ODIMM) of the Ministry of Economy of the Republic of Moldova but also with local authorities of Soroca.

The main goal of this project was the economic recovery in Moldova, following thus reducing poverty, creating jobs, and restraint of labor migration by encouraging development of small and medium enterprises. Therefore, the incubator aims to provide entrepreneurs with business plans opportunity to achieve them in an appropriate environment.

Opened the end of 2009, the business incubator Soroca hosted 17 small and medium companies that have created 70 new jobs, specializing in: making clothes, glass processing, glass furniture production, feed grain, windows, legal service, architectural, accounting, organization of events and festivities, photographic and advertising services.

The 17 companies were chosen following a competition of business plans (viable) and for the entire incubation period, three years, will benefit from several advantages, such as office space or low-cost production, financial

support to purchase of equipment (50%), reduced administration costs, but also support from the Norwegian and Moldavian specialists in business development, the identification of markets. For example, to rent space: the firms will pay 10% of the market for a year of activity, 40% - for the second year of activity and 80% - for the third year. Also incubated companies will receive free Internet, heating, household services in common areas, and marketing consulting services. Also, Soroca Municipal Council gave the 17 companies, an old building with an area of 1,700 square meters, which has been repaired and fitted with industrial and office equipment.

Incubated companies were advised that during the incubation period, to take advantage of these benefits as they will be forced to perform, after completion of three years, entrepreneurial activity in the same conditions as other companies in the country. The desire to start a business is not enough for survival, knowledge and adequate preparation is the underlying business development.

It seems that mixed business incubator model, launched nearly two years ago, was a success because a few months after launch, some companies incubated already became prosperous, such as textile factory, North Bevera. Production capacities and volumes had increased and imposed extension of the areas of production, so the director asked the incubator's administrator additional two spaces.

The inauguration of Soroca business incubator, was a timely choice for the business environment in Moldova, stimulating the development of entrepreneurship to a competitive and sustainable economy. Thus, the incubator illustrates a perfect collaboration between Norwegian experts and the Moldovan authorities, between local and foreign business.

## 5. Conclusions

Business incubators have been created to support viable business ideas and to help entrepreneurs' companies to succeed in passing critical stages in the life of any company and to grow on the market.

Incubators are providing a range of facilities to the incubated companies, creating a favorable, appropriate environment to their development, consulting business plans, marketing, business management or information related to promoting the image of companies.

They are an important lever to launch the local entrepreneurial initiatives that can have a significant impact on a country's economy and can lead to the creation of large numbers of jobs. In order to have a strong network of incubators it is necessary to use available resources efficiently, therefore, to be

mobilized in enterprises productive from economic point of view, competitive, but also able to continue their work after leaving the incubator. To expand the incubators network it is necessary to improve the legal framework, to check carefully incubated companies and framing with the limits of performance parameters and diversification of business areas.

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