

AN ANALYSIS OF THE MAIN FEATURES OF THE BUSINESS INCUBATORS

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ABSTRACT

Over time the success of business incubators has been questioned. There were observers who have noticed their beneficial effects (Haugen 1990), but there were also observers who have criticized the incubators and their impact, for example Cote (1991) who was highly critical with the incubators from Canada, funded by the government. Regarding the business incubators we should remember that the objectives of the incubators should be fully taken into account in evaluating their success. If the objective is to create new companies with a higher probability of success than a non-start-up incubator, then the criteria should be the long-term survival rates and the leaving moment from the incubator. On the other hand, if the objective of an incubator is to obtain profit as an independent entity, then the number of successful companies after leaving the incubator wouldn't be an appropriate criterion for determining the success of the incubator. Throughout this work we aim to capture the main features of business incubators and to turn our attention to the results of incubation Projects led in Romania through “The National and Multiannual Program of Establishment and Development of Technological and Business Incubators (2002-2012)”.

Defining the univers of the research – business incubators

U.S. National Association of Business Incubators defines the incubation process as it follows: "Business incubation is a dynamic process of business development. Incubators supply small businesses, helping them to survive and grow at the beginning, when they are most vulnerable. The incubator provides management assistance, access to financing and technical support or business management services. In addition, it provides common services to entrepreneurship firm, such as access to equipment, flexible lease agreements and expandable space - all under one roof. "

At the awards banquet of the annual meeting of the U.S. National Association of Business Incubators (U.S. NABI), organized in 1994, Frank Mancuso, known as the "father of business incubators", told the story of the first business incubators and the origin of their name. In 1950, in Watertown, New York, there have been significant job losses as a result of the movement of many manufacturing plants to South and West Coast. With these industrial changes, an incubator which served for local producers of poultry has been closed. Left with a vacant building, the Watertown city decide to clean and renovate it, and Mr.

Mancuso, the mayor, allowed entrepreneurs to use the building as a place to start their own business.

He called for a minimum rent, since his main purpose was to stimulate the economic activity and provided basically a heated work space and access to a telephone. Even with such limited resources, a number of new start-ups developed in this building, and the program was successful enough to attract the attention of the local media. A reporter who came to see what happens asked Mr. Mancuso what it is all about. As he says, he responded "I do not know how to call it – I used to incubate chicken here, and now i believe that we incubate businesses. The rest, as they say, is history [5].

Features of the business incubators

As Haugen (Haugen, 1990) observes, the original reason for creating business incubators was to replace jobs lost when companies left the region or the city.

The objectives for establishing business incubators are fundamentally economic. However, there are also other objectives served by incubators, and most of these objectives derive from the interests of the sponsors, and entrepreneurs within the incubator. Whatever other objectives can be served by the business incubator, its primary function is still to help entrepreneurs in starting new businesses. The incubator services eliminate the need of the entrepreneur to pursue issues not directly related to the business and so reducing the operating costs. The low price of the rent compared to the market price required by most incubators also conduct to a reduction of the operating costs for new businesses during the critical start-up period. Therefore the benefits offered by business incubators are both technical and financial.

Incubators admit new companies with high growth potential and a high cash-flow potential. Most incubators allow participants to be tenants for a limited period of time. Most of the business incubator tenants remain in the incubator for two or three years (Allen & McCluskey, 1990). However, because new technologies need often more time to reach the market, some incubators allow longer rental periods.

Many administrators of business incubators reserve the right to take decisions on a case by case, regarding the extension of the normal lease period and many of them make frequently changes depending on their development. Regardless of the incubation period, at the end of the period the new company is on her own outside the incubator. The rules for leaving the incubator vary. Some incubators are based only on the period of incubation, for example, while others use tests regarding the size of the business, the profitability, or other financial criteria. Combinations of these criteria are also used.

Business Incubators often provide to entrepreneurs counseling in preparing business proposals or plans, assist them in establishing contacts to reach funding, and can assist entrepreneurs in obtaining cheaper insurances. Most services are

provided in the form of indirect support. A key feature of most incubators is the provision of common logistics support elements. These include utilities, telephone switchboard, computer, printer, fax, copier and mailbox. An important feature of an incubator is the ability to provide management services. These include accounting, marketing, business plans, public procurement, legal services and others. These services are often arranged through the incubator, but are provided by private consultants.

Many incubators provide training and education for managers. This training may be corroborated to educational institutions, or may be provided independently.

Usually Business incubators do not provide direct technical advice or assistance, but there are some notable exceptions. An example in this direction are the incubators associated with universities and educational institutions which usually incorporate some form of technical research or research and development support as part of their operation. This may not always be available to all incubated companies, given the need for security in developing technologies.

Results of the Establishment and Development of Business Incubators in Romania Project at the end of the first incubation cycle

The Romanian Business Incubators are financed from private and public sources. The Business Incubators financed from public funds, are part of The National and Multiannual Program of Establishment and Development of Technological and Business Incubators in Romania (2002-2012). This Program is coordinated by The Agency of Implementation of Projects and Programs for Small and Medium Enterprises (A.I.P.P. SME's), and implemented by The United Nations Development Program (P.N.U.D.), Romania. The main objective of the Program is to develop small and medium enterprises (SMS's) sector in Romania, by establishing Business Incubators and by improving the efficiency of the existing Business Incubators. Part of this Program is also the project named "Establishment and Development of Business Incubators in Romania".

This project started in 2006 with three Business Incubators located in Alba Iulia (Alba), Braşov (Braşov) and Sfântu Gheorghe (Covasna). Each incubator is managed by an administrator. The administrators have selected several companies which to incubate for three years.

We can notice from the chart above that from entrance in the incubator until the end of the second year of incubation, the number of jobs created by the incubated firms, recorded significant increases. At the end of the first incubation cycle, the project lead to the following results: 170 jobs created within the 57 incubated firms, These results allows us to affirm that the incubation cycle finished with three jobs created per company incubated. This is an encouraging result, given the fact that 2009 was the year of layoffs in the business environment in Romania. The areas of activity that generated the most jobs within the incubated companies were: services (consultancy, metrology, projection, mailing, cleaning,

security and protection, technical analysis, thermal rehabilitation, organization of events, gardening and landscaping), food, wood industry, constructions.

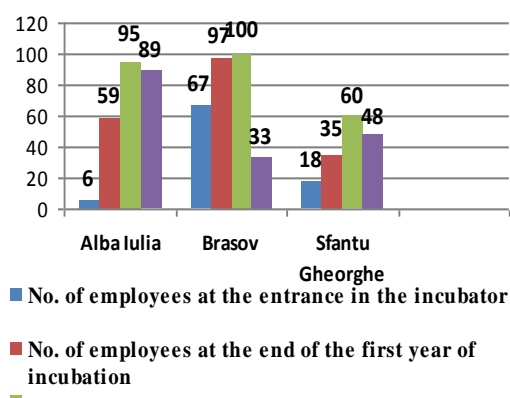


Figure 1 Number of jobs created by incubated firms

In 2010 the Project continued and there were three new locations selected for establishment of business incubator: Mangalia, Satu Mare and Targu Mures. Administrator of a business incubator can be a legal trader, a non-profit organization, an O.T.I.M.M.C. chosen following a public auction organized by local authorities. In this respect, Mangalia Municipality organized the public auction for the purchase of business incubator management services, after the building destined to become a business incubator was renovated, equipped with necessary equipment (office furniture, IT equipment and telephone equipment) prepared to give potential customers all the services they need (internet, heat, electricity, etc.) . Mangalia Municipality has developed in this direction the purchase documentation of Mangalia Business Incubator management services, Constanta County, and made public this documentation using the electronic public procurement system (S.E.A.P.). After 20 days of the documentation publication the mayor organized a committee to evaluate the offers submitted, committee consisting of representatives of City Hall, A.I.P.P.S.M.E., O.T.I.M.M.C. and U.N.D.P. After opening all the offers and analyze of the technical, economic offers and of the business plan, it was designated the winning offer, the auction result has been sent within five days.

Clever Consulting Company participated in this auction, her offer being designated the winning offer, thus obtaining the local management of the Mangalia Business Incubator. Clever Consulting Company is a limited liability company established under Law 31/1990. Company's services cover a very wide range of services; the company aims to provide complex consulting services: business consulting services, marketing services, human resources services and management services.

Currently the administrator of the Business Incubator from Mangalia runs the selection procedure of the firms to be included in the first incubation cycle. The **Beneficiaries** are the potential entrepreneurs who intend to establish a company in

accordance with the national legislation or existing companies, with at least two years of activity at the moment of solicitation the inclusion in the incubator.

Once included in the incubator, the entrepreneurs have some obligations, for example setting up in the first year of incubation at least three jobs and maintaining these jobs throughout the entire period of incubation (three years), contracting with economic partners outside the geographic area of the Business Incubator.

The small and medium enterprises selected in the Project receive grants for the acquisition of necessary equipments for starting their activity, and during the incubation period receive partial reimbursement of cost with utilities and consultancy services. The consultancy services will be provided directly by the incubator's administrator, or by specialized persons. These services are focused on consultancy and assistance in elaborating business plans, marketing plans, feasibility studies, applying for other grants, assistance in the process of developing, and commercialization new products outside the geographic area of the Business Incubator, assistance in developing national and international partnerships. Also the incubated firms receive assistance in the recruitment process.

In conclusion the original reason for creating business incubators was to replace jobs lost when companies left the region or the city; the benefits offered by business incubators are both technical and financial. An important feature of an incubator is the ability to provide management services such as accounting, marketing, business plans, public procurement, legal services and others.

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