

The Effect of Business Incubation in Developing Countries

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Abstract: *The aim of this paper is to review the literature and show the strength and weakness of business incubation in developing countries. This paper is based on a wide literature review, focused on the identification of the incubators as tool for economic development. We found that 1) business incubators provide support for start-up companies, 2) graduated companies tend to have a greater probability of success and 3) graduated companies have a significant positive impact on economic development. These findings can help policy makers, governments, and practitioners with their implementation in incubator programs, leading to better planning and a greater chance of success. This paper contributes to enhance the understanding of the strategic implementation of incubator models in developing countries and provides useful information to both academicians and practitioners who are interested in incubator programs.*

Keywords: Strategic, developing countries, Incubators, Economic Development

1.0 Introduction

There are many definitions for business incubation. However, most agree that a business incubation program is an economic and social program which provides the intensive support to start-up companies, coach them to start and accelerate their development and success through business assistance program. The main goal is to establish the successful start up companies that will leave the incubators financially viable and freestanding. In addition, the graduate companies' outcomes are jobs creation, technology transfer, commercialize new technologies and create wealth for economies.

The literature has proven that there is a positive impact of business incubators goals. First goal is generally to support regional development through job creation (Allen and Levine, 1986; Mian, 1997; Thierstein and Wilhelm, 2001). The second goal is for the incubator to generally aid in the growth of new ventures (Campbell, 1989; Petree, 1997). The third goal is for incubators to foster technological innovation and industrial renewal (Allen and Rahman, 1985; Similor and Gill, 1986; Allen and McCluskey, 1990; Mian, 1996).

The objective of this paper is to show the strength and weakness of business incubation in developing countries. We will focus on the identification of the incubators as tool for economic development.

The paper is structured as follows: Section 2 provides a thorough review of the literature on the concept of economic development. In Section 3 the research methodology included the evidence from the literature review and ten successful case studies to illustrate the different key performance of the business incubation. In Section 4, the authors briefly discuss the finding of the study drawn from quantitative approaches of incubators. Section 5 concludes with implications of the business incubators from successful developing countries.

2.0 Related Literature Review of Concept of Economic Development

Economic development is defined as the process of creating wealth through the mobilization of human, financial, capital, physical and natural resources to generate marketable goods and services. The economic developer's role is to influence the process for the benefit of the community through expanding job opportunities and the tax base (AEDC 1984, p. 18).

This definition captures the two aspects of the term economic development. It refers to both a process and a practice. The economic development process is viewed as a growth process-the mobilization of

resources to produce marketable products. The definition is static, however, it fails to indicate that economic development, as a process and a practice, is a long-term, ongoing enterprise. New development problems continue to emerge as former ones are resolved. Though flawed, the definition is nonetheless powerful because it justifies much of what practitioners now do in the name of economic development in the United States.

If concepts of economic development are to be learned using theory effectively in economic development practice, then economic developers need to grasp four fundamental concepts. They face an apparent contradiction, given the conventional views of theory and practice. Theory is considered abstract thinking that simplifies some aspect of reality; practice involves human action that changes reality in some particular way. Social theory generally addresses 'social forces' and ignores individual action to explain reality; it is essentially deterministic. Economic developers, as well as other individual actors, exercise free will in trying to influence the development process. Together, the concepts of power, theory, interests, and mediation resolve the apparent contradiction between deterministic theory and voluntaristic practice. Here are the four concepts.

First, power is the ability to do work, to get something you want accomplished. Power is exercised in one of four ways: by using (1) money, (2) force, (3) persuasion, or (4) information. With money, people can buy what they want or hire other people to get what they want done. The government has a monopoly on the legal use of force, but some individuals use force illegally, if not illegitimately, to further their interests. Obviously, people do certain things because they are threatened with the use of force. Those who argue well can employ persuasion to get others to help them accomplish their objectives. Historically, a few individuals with great charisma have mobilized many people to work in their service.

Second, Theory is the most powerful form of information. With theory, help them fulfil their plans, also ability to think independently and creatively about the local economy in the face of political pressure favoring particular development strategies. Theory is a systematic set of propositions positing cause-effect relationships and placed on a continuum from hypothesis to law. It can be contrasted with practice that is action-oriented, not reflective.

Third, Interest integration of the theories and models are not politically neutral. Rather, people tend to believe that which is in their best interest and ignore conflicting evidence. A convenient way to identify economic interests in development is to recognize the four general impacts the development process has on different participants: price, quantity; income, and/or wealth effects. Theories that refer to the economic growth process focus of income effects and quantity effects (such as changes in employment or output).

Finally, Mediation defines as human agency is the people planning and doing the things which represent the specific activities and events that affect the course of development in specific places. Economic development theories ignore human agency. Theory lays out cause-effect relationships without addressing the activities of people required to give life to these relationships. In abstract causal models, main-mate objects appear imbued with human traits and abilities. Economists usually speak of "the market" as if it had a life of its own, as if it could do things. Meanwhile, they ignore the human agency required to make markets function.

3.0 Research Methodology

The research methodology that has been used in this research study is comprised of desk-research, interviews and case study of 5 incubator organisations in the world: Bahrain, Jordan, Morocco, Syrian and China.

3.1 Business Incubation and Economic Development

Business Incubation Programs are aimed at promoting economic development of its community by supporting start-up companies and their business development. These programs offer services to support the establishment and development of new/small and medium companies. In addition, the services divided to four such as; 1) start-up consulting and business planning; 2) consulting in all

areas important for business development and growth; 3) consulting for and/or access to financing; and 4) training and networking (InfoDev., 2009).

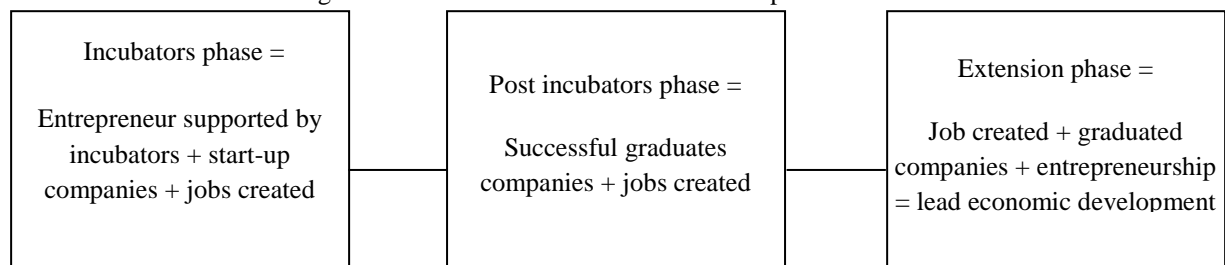
It is widely known that business incubation is a tool for economic development. Business incubators help to strengthen the local economies because their small business tenants and clients survive inside the incubators the survival rate 90% (InfoDev., 2009; Molnar et. al., 1997; Al-Mubarak. et. al., 2010). This rate lead the governments fund and support business incubators as away to increase the number of successful start up companies in a community. Furthermore, the increment of the companies in the local market leads to the jobs creation. Finally, the total number of jobs created by the incubators affect on the economic development.

In this context, the primary objective of US incubators is to promote economic development, diversification of local economy, the commercialization of research, the technology transfer and to produce income for sponsoring organization (McKinnon and Hayhow, 1998). A National Business Incubation Association (2007) publication observes that “the most common goals of incubation programs are creating jobs in a community, enhancing a community’s entrepreneurial climate, retaining businesses in a community, building or accelerating growth in a local industry, and diversifying local economies” (National Business Incubation Association, 2007). Whether or not economic development is one of their main objectives, all types of successful incubator programs are likely to help contribute to this indirectly by facilitating business growth and technological innovation.

Although the Business incubators offer considerable potential for promoting economic development in worldwide, where small companies may be struggling to compete in local, national or international markets with relatively few resources and limited technical or business expertise (Joseph and Eshun, 2009; Al-Mubarak,2008; Al-Mubarak and Busler, 2009; 2010a; 2010b). As a result, they are increasingly being adopted by the governments of developing countries, often in collaboration with inter-governmental organizations such as the United Nations. In the case of China, for example, it has been observed (Lalkaka, Ma & Lalkaka 2003; Chandra and Fealey, 2009) that the extensive business incubator program developed in the early 1990s has played a key role in facilitating the country’s transition from a socialist to a market economy by enabling the commercialization of technological developments and promoting a culture of innovation across China. Similarly, in India, business incubators have formed an important part of the Government’s science and technology policy (UNESCAP, n.d.).

Many researchers and scholars confirmed the positive impact of business incubators on job creation. Wagner (2006) conducted study to examine nine incubator programs with a total of 175 incubated businesses in the state of Missouri revealed evidence that these businesses had created 502 jobs in total, or an average of 60.5 jobs each. Within the developing world, a late 1990s analysis of data available on 77 Chinese incubators sponsored under the Torch program (Lalkaka, Ma & Lalkaka, 2003) indicated that these incubators were providing a good financial return, with the investment for the year of 1998 likely to be covered by tax receipts alone in the following five years. See figure 1.

Figure 1: Incubators Lead Economic Development



3.2 Case Studies: Business Incubators in the Developing Countries

There are 7000 incubators world wide and 21 incubators across Middle East (Monkman, 2010; NBIA, 2010). Interviews were conducted with senior executives of 5 incubators organisations across the developing countries. Furthermore, the benefits of incubators in developing countries including Kuwait

and other GCC member states, could be development of the local economy, promote technology transfer, and create new enterprises and positive impacts on jobs creation.

Table 1 shows the analysis of the case studies included country name with the main objective of incubator programs with the services provided by the incubators and economic indicators such as the number of graduated companies.

Table 1: Summary of Case Studies

Country		Incubators Objectives	Incubators Services	Economic Indicators (No. of Graduated Companies)
1	China	1. Job Creation 2. Profitable Enterprises 3. Research Commercialization 4. Entrepreneurship Awareness 5. Export Revenues 6. Policy Impact 7. Income Generation	1. Management that develops and orchestrates business, marketing and management resources and relationships tailored to the needs of the business clients. 2. Shared office services, training, technology support and equipment. 3. Selection of clients and an acceleration process by which businesses become more independent and progress to graduation. 4. Assistance in obtaining the financing necessary for business growth. 5. Providing access to appropriate rental space and flexible leases in the incubator	609
2	Bahrain			30
3	Jordan			3
4	Morocco			4
5	Syrian Arabic Republic			6

4.0 Findings and Discussion

A Business Incubator is an economic and social development entity designed to advise potential start-up companies, help them to establish, and accelerate their growth and success through a comprehensive business assistance program. The main goal is to produce successful businesses that will leave the program financially viable and freestanding. These graduates create jobs, revitalize communities, commercialize new technologies and create wealth for local and national economies.

Table 2 summarizes the case studies economic development such as incubators job created by each country and total number of graduate companies. In addition, chain incubators program created 2123 jobs with total number of graduated companies 609, Bahrain incubators program created 35 jobs with total number of graduated firms 30, Jordan incubators program created 6 jobs with total number of graduated firms 3, Morocco incubators program created 8 jobs with total number of graduated firms 4 and Syrian Arabic Republic incubators program created 7 jobs with total number of graduated firms 6. In summary, the total number of job created by case studies is 2179 with total number of graduated firm 652.

Table 2: Summary of the Countries' Economic Development

Country	Economic Development			
	No. of Client Firm (job created inside the incubators)	%	No. of Graduated Firms	%
China	2123	97.42	609	93.4
Bahrain	35	1.61	30	4.6
Jordan	6	.28	3	.46
Morocco	8	.37	4	.62
Syrian Arabic Republic	7	.32	6	.92
Total	2179	100	652	100

The development of business incubators might lead to the following issues as the strengths of incubators include the following. See table 3.

Table 3: Strengths and weakness of Incubators

Incubators	
Strength	Weakness
Economic development	Lack of financing for company
Shared basic operating costs	Lack of expertise in entrepreneurship
Consulting and administrative assistance	Lack of personal economic resources
A dynamic networking of entrepreneurs	Lack of technology literacy
Universality of incubator concept	
Access to capital	

Economic Development: Incubators provide psychological support for entrepreneurs, who are far more likely to persist as a result, is of the support lead the incubator's to be a unique place for economic development for create jobs, and diversity of the local economic losses.

Shared Basic Operating Costs: Tenants in a business incubator share a wide range of overhead costs, including the direct and indirect services.

Consulting and Administrative Assistance: Incubator managers and staff members can often provide insightful advice and information on a broad of business plan or any start up document.

A dynamic networking of Entrepreneurs: Many small business owners that have launched successful ventures from incubators cite the presence of fellow entrepreneurs as a key element in their success.

Universality of Incubator Concept: One of the key advantages of incubators is that the concept works in all communities of all shapes, sizes, demographic segments, and industries.

Access to Capital: Many business incubators can provide entrepreneurs with "access to the kind of early-stage capital that emerging companies desperately need.

5.0 Conclusion and Reflection

In this study, the following general conclusions can be drawn from the previous overview of the findings of key studies into the impact of business incubators, conducted in a range of different countries. First, Incubation provides mixed support for the entrepreneur from the start-up companies and the start up create jobs inside the incubators. Second Post-incubation, relates to the successful graduated companies which each start up companies has been reached the maturity phase then they will leave the incubator and standing free in the local market. Third, Extension phase, the graduated companies will expand in the market with positive impact on the economic development because the outcomes from the incubators included the three factors; entrepreneurship, graduated companies, and job created overall factors lead to economic development and will diversify the economic growth.

This paper describes the incubators model in developing countries. The positive impact of business incubators leads to economic development. In conclusion and throughout a careful review of the published literature and the analysis of the strength of business incubator is an effective tool for economic development. The study supports previous work that suggests that quality initiatives and careful planning of incubators may present a pathway to stimulate an economy and in particular in the developing countries.

Finally, this study has clearly stated that business incubators is aimed promoting economic development of its community by supporting start-up companies and their business development and offers services to support the establishment and development of new as well as existing small and medium companies. This is evident in both the United States of America and the developed countries.

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