

Five “Musts” for Business Incubator Success

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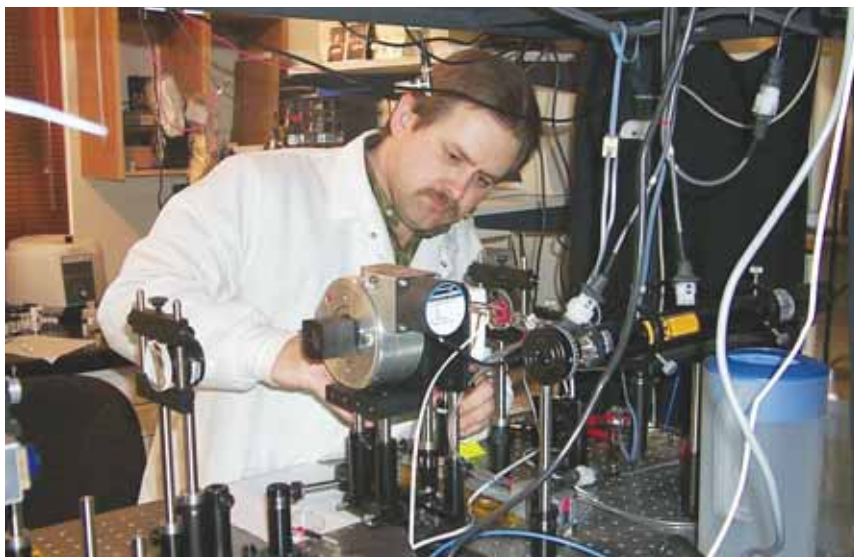
It is little short of astonishing how much has changed in the world of entrepreneurship support in the last 30 years, and this field will certainly continue to evolve rapidly.

Unbelievably, few people even considered the importance of emerging companies to our local and national economies in the late 1970s. Now, there are more than 1,100 business incubation programs in the United States – and as many as 5,000 around the globe – and colleges and universities everywhere are initiating or expanding programs to teach entrepreneurship and support local start-up businesses.

More and better programs will come into being aimed at helping entrepreneurial firms to succeed – in every community, urban and rural. If you’ve any doubt of this, reflect on the changes that have occurred in just 30 years in the technology arena – personal computers, GPS technology, cell phones, PDAs, digital cameras, and even fax machines all were invented over the past three decades.

The same is true in entrepreneurship support. In 1977, economic development was virtually all about “smokestack chasing,” attempting to attract big plants to Ohio from Michigan, for example. Few individuals were giving much attention to start-up companies. University business schools taught how to succeed in corporate America, and a great deal of technology developed in companies and university or government labs sat on the shelf, uncommercialized. Only a few, elite start-up companies had access to angel investors or venture capital, and few organized groups of investors existed outside the largest cities. Fledgling firms, which didn’t have access to these sources of capital, also tended to be rejected when they looked to traditional banks for credit.

While it was obvious that virtually all large corporations had started as small companies, it was impossible to get an education in starting a business outside of the school of hard knocks. It was as though we expected entrepreneurs to be born with that experience – even as we recognized that, to grow up to be successful citizens, our children needed education, mentoring and networks of support.



University incubators help take new technologies from the lab to the market. AlphaMicron applies liquid crystal technologies to curved plastic surfaces such as sunglasses. Founded by researchers in Kent State University’s Liquid Crystal Institute, the company got its start in the Kent Business Incubator in Kent, Ohio. Today, it’s a Fortune 500 company with clients in the military and corporate America.

But by 1980, there were 10 to 15 fledgling incubators operating in the United States, and this movement shortly became a global one. A few of these early programs have now celebrated more than a quarter century in operation.

What a learning time it’s been! Yet some of the lessons have been tough. Communities have invested in incubation programs that either failed or didn’t live up to expectations. Taking this into consideration, I ask you to consider several key “musts” for business incubation success. Even if you already operate a business incubation program, these ideas may help you improve your operations and service to entrepreneurs. If you are thinking about developing a business incubator, these should be considered vital to your effort.

1. A successful incubator must be grounded in the real world of business and have deep support from the local business community.

It is interesting that many business incubators are sponsored by colleges and universities, local economic development groups, and local governments. These are not, inherently, business-like organizations. In fact, they may be, to a greater or lesser extent, too bureaucratic and/or academic to successfully operate a business incubation program.

It is almost axiomatic that governments cannot set up successful incubators as governmental departments and hire a bureaucrat to take charge. This situation is equally hard for many universities, particularly if they put a professor in charge. While government or academic support can contribute significantly to the resources available to develop and operate a successful incubator, it's frequently best for the sponsor to be at arm's length, and it is absolutely necessary to have strong input from the business community.

To be successful, an incubator must be run like a business. That means being nimble, adjusting to the market and reacting quickly to changing conditions. These are qualities most often seen in the business sector, rather than the academic or government sectors. Therefore, bringing in management from the business community is key.

Additionally, business incubation programs can set up formal means of soliciting input and direction from the business community. Boards of directors can bring valuable business acumen to the incubation program, and often are a source of professional help for incubator clients. Those incubation programs that operate under an umbrella organization's board can instead set up advisory boards that don't have fiduciary responsibilities but that still can assist incubator management and clients in strategy and projects.

In addition to issues related to management and governance, entrepreneurs need other experienced entrepreneurs, legal, accounting and financial advisors, the expertise of university research staff and faculty, and access to those familiar with structuring and financing new companies and preparing them for growth. Most of these individuals reside in the business community, and to gain their involvement it's necessary for the incubator staff to be grounded in real business culture and to have credibility with that community.

2. Incubator developers need to take a holistic view of incubators' role in entrepreneurial development – they are not, in and of themselves, magic bullets.

It takes a lot of actors and resources to develop an appropriate support network for entrepreneurs and speed their success. Yet doesn't it seem that we sometimes hear that a particular effort – an incubator, science park, academic entrepreneurship education program, microloan program, angel financing network, or cluster development effort – will provide the needed solution?

It just doesn't work that way, of course. To the extent possible, entrepreneurs need all those things. Nobody should engage in an incubator development project without at least

considering whether any industry clusters are appropriate for the program. Incubator developers must also consider whether there is sufficient access to professional service providers, capital, university technologists and other key entrepreneurial resources in a community before moving forward with a program. If these resources are not present, is there potential for developing them?

It is a mistake for any community to develop an incubator without considering whether appropriate space is available for companies to graduate into, such as industrial or science parks may provide. It may not be necessary to have that space available on day one, but it's important to consider when it might need to be phased in. Otherwise, the incubator could end up graduating companies into other communities.

There's a simple rule here: It takes a lot of resources to grow a company from the concept stage to a self-sufficient entity. Consideration must be given to the larger environment and resources that are already available or that need to be put in place to ensure company success and, consequently, community wealth creation.

3. The community, academic or other sponsors of the incubator must hire management with the expertise to help companies grow and to run the incubator in a business-like fashion. This includes providing adequate compensation for experienced management.

These rules are frequently ignored by incubator developers, to their detriment. In fact, we have seen incubator sponsors hire low-paid individuals who answered the incubator's telephones but didn't have experience in growing companies. In effect, they got a "concierge" to manage the building, but were unable to breathe life into an incubation program that successfully grew companies, created jobs or contributed to community wealth creation.

In the worst such situations, the programs failed utterly



Many incubation programs offer commercial kitchens and bakeries for entrepreneurs to develop and produce specialty food products. The Fulton-Carroll Center in Chicago, for example, gives clients access to a large-scale bakery.

as they lost community and political support. And hard-strapped local governments found themselves paying much more to subsidize failing programs than they would to support successful ones. The projects became “black holes” that sucked away resources, rather than generating new ones.

Having a successful former entrepreneur or individual who worked closely with start-up companies at the helm of an incubator is important for many reasons. Incubator clients will need been-there, done-that advice, not academic theory. And, they’ll need that advice from someone who is used to moving at the pace of business. Incubator clients also will need to trust that when incubator staff do not have needed expertise, they can quickly connect clients with professionals in the business community who do.

Finally, the incubator manager’s salary must be sufficient to attract an experienced company-grower, in order to maximize the program’s return on investment.

4. There must be a clear understanding of the existing entrepreneurial market that the incubator will focus on.

Wanting to develop a biotechnology sector isn’t sufficient reason to create a biotech-focused incubator. It’s necessary to have existing deal-flow that can support a tightly focused program. I once knew of a university-created biotech incubator that had only four clients in four years. Needless to say, this resulted in a lot of disappointment and waste, especially since it was highly unlikely that one or more of these clients would succeed. There simply weren’t enough potential companies from which to choose candidates that had the promise of being successful.

Any community interested in incubator development must scrutinize valid market information that can support the need for an incubator and the type of clients to be served. For example, the data might show that there’s need for a general purpose or mixed-use incubator that can also serve a subset of communications technologies companies. It might be necessary to work with an experienced consultant to develop the market information and a subsequent business plan for the incubator.¹

Above all, understand the local market and tailor your incubation project accordingly.

5. The incubator’s sponsors and management should agree on the program’s mission and determine specific criteria for measuring its success.

It should be obvious that no business incubator can be successful if every member of its governing board, its management and the public think it should be achieving different goals. All supporters need to come together to gain consensus on the program’s mission and ensure this mission is well understood by the community. These same actors then need to develop a set of criteria that can be used to evaluate the program against its mission.

These criteria will vary depending on the type of incubator. A program focused on construction-type businesses in a minority community will have different criteria than a technology incubator located on a university campus. For example, one might track the increase in contracts obtained by



The Southwest Michigan Innovation Center in Kalamazoo partnered with a private company to open a specialized scientific supply room with refrigerated, frozen and room-temperature products. Having the supplies on site saves clients money by preventing rush orders.

minority firms and jobs created for neighborhood residents, while the other might track its clients’ acquisition of capital investments and university-developed technologies that have been successfully commercialized. There are many potential criteria in either case.

While it’s well known that evaluating any program’s success is important, this simple process frequently is not undertaken, or insufficient attention is given to determining the relevant criteria and coming to agreement on which are most important.

What to expect from your incubator

There are, of course, many, many do’s and don’ts of effective business incubation. The board of the National Business Incubation Association (NBIA) approved a set of best practices (and two principles) of effective business incubation in 1996. These may be found in the NBIA Web site’s Resource Center.

No incubation program, though, can achieve its potential to become an effective engine of economic growth – fostering the creation of an environment that is friendly to entrepreneurs and that can promote their success – without adherence to the five minimum guidelines noted above. Investments in incubators that don’t heed these musts are doomed at best lackluster performance, and at worst to failure. ★★

For further information on NBIA membership, the organization’s 21st International Conference on Business Incubation April 1-4 in Seattle, and other NBIA events and resources, visit our Web site at www.nbia.org. To subscribe to NBIA’s nonmember newsletter, contact Randy Morris, NBIA Insights editor and membership director, at rmorris@nbia.org.

¹ Considerable information on how to develop incubators is available from NBIA’s new publication, “Developing a Business Incubation Program – Insights and Advice for Communities” (2006). See the NBIA bookstore at www.nbia.org for this comprehensive 200-page handbook on incubator development.