

**Business Incubation in the UK 2007 – 2008**  
**(A Practitioner's View)**

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## Abstract

Objectives: To set out, in a clear and structured way, an experienced practitioner's view of current business incubation work in the UK and based on that, to set out a personal view on what should be best practice in business incubation

Prior Work: The writer's own experience of working with start-up businesses for over 30 years and specifically in business incubation over eight years. CPD work for business support accreditations over 15 years. Research work for previous papers on Business Support presented to ECSB, ISBA (2) and ISBE (2). Research and consultation for this paper.

Approach: Combining a record of direct personal experience – focussing heavily on the period of work in an award winning local authority business incubation and business support operation - with research into the business incubation methods used in other organizations and information from third party reports on business incubation in the UK.

Results: A 7,000+ words review of business incubation as practised in the UK - seen through the eyes of a practitioner.

Implications: That business incubation is not just providing premises for start-up businesses. That advisers working with start-up businesses and new businesses need at least as wide if not even wider expertise than those working with established businesses.

Value: Hopefully to be one of the reference works for business incubation centre personnel and in particular the business advisers working with start-up and new businesses.

## Introduction:

This paper is based on: the writer's own experience of working with start-up businesses for over 30 years, including as an Executive at a successful Enterprise Agency<sup>1</sup> and recently specifically in business incubation for over eight years, CPD (Continuous Professional Development) work for business support accreditations over 15 years, research work for previous practitioner papers on Business Support presented to ECSB (European Council for Small Business), ISBA (Institute for Small Business Affairs) [2] and ISBE (Institute for Small Business and Entrepreneurship) [2], 6+ years of liaison with a University's Enterprise Centre which incorporates a 'Hatchery', and finally research and consultation for this paper.

Although the writer is currently a Business Adviser with Rotherham Investment & Development Office (RiDO) and Rotherham Youth Enterprise, it should be stressed that the paper incorporates his personal views - combining a record of direct personal experience – focussing heavily on the period of work in an award winning local authority business incubation and business support operation - with research into the business incubation methods used in other organizations and information from third party reports on business incubation in the UK.

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<sup>1</sup> Business support operation typically providing free advice/information service to small start-up and developing SMEs.

## ***Business Incubation:***

### ***Definition:***

It is necessary to identify clearly what is meant by ‘business incubation’ and hence ‘incubators’. It is not simply the provision of buildings earmarked for use by ‘start-up’ businesses – that is simply providing premises. Indeed it can be dangerous, both financially and in terms of lower than expected outcomes in job creation and GDP, to concentrate solely on building premises (comprising small units for new businesses) without considering the total needs of new businesses. Instead, successful ‘business incubation’ in the UK is a support process that involves many stages and requires a holistic approach.

Business Incubation is defined by UKBI (UK Business Incubation<sup>2</sup>) as: “A unique and highly flexible combination of business development processes, infrastructure and people designed to nurture new and small businesses by helping them to survive and grow through the difficult and vulnerable early stages of development.” (© UK Business Incubation Limited 2006)

Alternatively, it is defined by NESTA (National Endowment for Science, Technology and the Arts, UK) as “A technique whereby promising new firms are provided with a managed and structured environment in which they can grow to their potential”.

‘Incubators’ are, therefore, the premises or environments in which the ‘business incubation’ process is conducted.

### ***The Business Incubation Process:***

The author believes that, in the UK, the holistic approach begins with psychology – as successful business owners/entrepreneurs need to have the right mindset to operate a business. That is to say they must have the confidence, skills and determination needed to run a business. Those factors need to be present to at least a reasonable degree at the outset but the first two may, as part of the support process, be identified, by professional advisers, as areas where coaching and training would result in significant improvements – to at least the level needed for a pre-start scenario.

As part of that pre-start scenario, the potential business owners/entrepreneurs need to be able to assemble the resources (financial, human and physical) needed to launch the business. The writer’s view of the methodology in the UK is that ideally ‘Business Incubation’ should, therefore, provide a support package that encompasses:

- An initial unbiased assessment of the business owner and the potential business. To ensure a consistent approach this is probably best done by using a ‘diagnostic tool’ – e.g. the Forum 21 evaluation.
- If necessary, access to ‘business start-up’ training.
- Access to suitable business advisers and preferably also to business mentors with relevant sectoral experience.

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<sup>2</sup> An initially Government sponsored organisation set up to promote Business Incubation and to act as a members’ organisation for the sector.

- Advisers and mentors readily available in the pre-start scenario, next as the business launches and then again as it develops. Those advisers and mentors may need to challenge client assumptions and to ensure growth, set the clients targets.
- If necessary, a facility to refer a client to banking, financial and other professional service providers (e.g. accountants and commercial lawyers).
- Awareness of relevant funding available to clients from grant schemes – local, regional and national and commercial sources.
- The ‘incubator’s’ own ‘networking’, ‘inter-trading’ and training events plus a regular ‘newsletter’.
- Almost certainly, introductions to local business networks – e.g. Chamber of Commerce, ‘Buy-Local’ (supply chain link), Manufacturers’ Groups etc.
- Links to local academic institutions that can provide specialised research, student placements e.g. STEP (Shell Technology & Enterprise Programme) and/or have ‘knowledge transfer’ programmes.
- Links to trade support – whether for export or import
- A business location – which may initially only be ‘virtual’ (providing a business address and mail facilities) or actual premises.

### ***Tangible aspects of the process:***

Premises are an extensive topic but the main physical considerations are:

- Ideally a location with good transport links for both employees of the businesses based there and for movements of goods and services to and from the businesses. Adequate parking on site or available nearby.
- Modern or modernised premises that give confidence to occupiers and to visitors to occupiers.
- An interior layout and facilities that make for comfortable working conditions.
- Accepting that few new businesses will be likely to require units of over 200 sq. m.; a range of sizes of offices and/or workshop units.
- Good communication systems with full ICT cabling and ‘broadband’ links.

### **On –site facilities should include:**

- Flexible occupancy terms – to permit movement on site or even off-site with limited notice and limited penalty. Licences, rather than leases may be used.
- On-site clerical and other support facilities – extending to ‘on-site’ business advice that is linked to the local business support network.
- Meeting and/or conference facilities - preferably with projection and sound equipment available.

### **Timescales:**

The time that a business is located in an ‘incubator’ will vary but ideally there should be nearby ‘grow on’ space available to accommodate a business when it has outgrown the ‘incubator’. There may be an exit policy - limiting the period a business can be in an ‘incubator’ to as short a term as 12 or 18 months but generally business growth is usually a

reason for moving out at around the 36 months after start-up point.

***Eligibility:***

‘Incubators’ are intended for new businesses and in some locations particularly for new businesses that will generate significant increases in GDP and contribute to innovation. The ‘funding package’ for an incubator may influence the eligibility rules for occupancy – that may, in the UK, be based on SIC (United Kingdom Standard Industrial Classification of Economic Classifications<sup>3</sup>) codes.

The right combination of suitable premises, on-site support and access to support networks, plus an enterprising and entrepreneurial culture in the ‘incubator’ should result in an environment that will result in a high business survival rate and high business growth rates.

The successful Public Sector model that was adopted in Rotherham, in the 1990s, is operated by its local government – Rotherham Metropolitan Borough Council and in chronological order of actions the approach comprised:

1. Appointing an enterprising Business Centres Manager.
2. Use of an existing Council owned Business Centre but with business advice facilities added.
3. In an area where demand had been established by means of research; Building a new specially designed, mixed use, (65 unit) business centre on a former colliery site - with full support facilities (including a business adviser based there and with a remit to link with all relevant support agencies). The centre having a focus on knowledge based businesses and in its first 6 years creating 450 jobs in 100 businesses.
4. Monitoring of numbers of new businesses, employment created, levels of investment by clients and Adviser interventions.
5. Building a further, ‘business quarter’ located business centre aimed at the creative, digital and professional services sectors. Again with full support facilities including its on-site business adviser.

The above mentioned ‘incubation’ structure was sufficient to gain Rotherham Metropolitan Council the 'Champion of Business Incubation' Award by UK Business Incubation (UKBI) in November 2005. Since then, to fill a gap in provision, a further mixed use business centre was commissioned and opened in August 2008. A final mixed use centre, again on a former colliery site – to complete borough wide coverage with ‘business incubation’ – was commissioned for a late 2008/early 2009 opening.

After initial funding, the Centres are expected to be self-financing but not to generate significant surpluses.

It is clear from the above information that the SME and large businesses that closed in the heavy industries in Rotherham were not replaced by newer versions of the same. Regeneration

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<sup>3</sup> The system is identical to the EUROSTAT system NACE at its 4 digit level and the United Nations system ISIC at the 2 digit division level.

therefore depended heavily on new start businesses – including those in the Council’s ‘incubators, as well as ‘new starts’ in managed workspace, inward business investment plus re-locations and (especially in the Dearne Valley) the setting up large ‘call centre’ operations. The current business incubation model in Rotherham and indeed probably the models in most UK locations, would not lend themselves to the development of new heavy industry operations but are relevant to specialist ‘high added value’ operations - such as those metal producers and finishers linked to the aircraft industry – hence the existence of the Advanced Manufacturing Park (AMP) in Rotherham and the aim that the ‘incubator’ opened August 2008 will see some of its start-up businesses develop and move on to the AMP.

### **Models of Business Incubation in the UK**

Depending on how ‘business incubation’ is defined, there were 300+<sup>4</sup> incubation environments in the UK as at July 2008. The Rotherham model, which is centred on an operation managed by the local authority – i.e. it is ‘public’- is far from being the sole form of business incubation in the UK. A distinction can be made between ‘privately run’ and ‘publicly run incubators’ - where responses to the last UKBI ‘mapping exercise’ in 2005 suggest that the split is 79% ‘public’ and ‘21%’ ‘private’ but that is perhaps too simplistic. Instead, the author believes that, apart from those provided by public institutions, the two other principal types of ‘incubator’ are:

#### ***‘Commercial incubators’:***

These are operated by private or corporate businesses – albeit in some locations there will have been part-funding by regional government and there could be a further sub-division for those.

An example of such an ‘incubator’ is the Normanby IDEA Centre managed by Zernike (UK) Ltd. This is located at the Normanby Enterprise Park on the edge of Scunthorpe in North Lincolnshire. The location is on part of the site of a former steel-works – so there is a parallel with the Rotherham experience.

The Centre focuses on ICT businesses although other sectors will be considered for occupancy. Occupiers are expected to have a viable business plan that indicates that they will, in due course, develop out of the Centre. Occupiers are expected to enter into the ‘incubation’ process – including a detailed performance review at the end of Year 1.

The Centre was originally sponsored by the Government’s Regional Development Agency and its aim is to encourage small business start-ups that will benefit the local economy.

The Centre provides furnished [office] accommodation, meeting rooms and presentational equipment.

There is not a ‘free of charge’ on-site Business Adviser but such support is available from the local South Humber Business Advice Centre.

Another example is Great Western Enterprise Ltd. of Swindon. It has a workspace division that is a totally commercial operation of several business centres providing a combination of fully serviced offices and workshops for a wide range of clients – albeit only a limited number would be classed as ‘high growth’ businesses. The division has a sophisticated management system and can provide customised support and training solutions for clients. The business advice function is

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<sup>4</sup> UKBI, 13 July 2008

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provided by the associated Business Link business support operation and the total process can, therefore, be classed as ‘business incubation’.

#### University Based Business Incubators:

Universities provide an important source of start-up businesses – whether as ‘spin-outs’ from academic projects or from the other entrepreneurial activities of staff and students. Many UK universities have, therefore, chosen to set up their own ‘business incubators’.

An example local to the author’s base is the Leeds Met ‘Business Incubator’ operated by Leeds Metropolitan University in Yorkshire. It supports the University’s graduates and other entrepreneurs from the area in starting and developing businesses. With funding from the Government’s Higher Education Innovation Fund (HEIF) it provides a range of business support services in serviced accommodation – currently for 25 businesses. Applicants are assessed on their business idea and needs by the onsite Business Adviser – so that they can be provided with the relevant support services that are available during the first 3 years of a business’ existence.

Other well known University or College linked business incubators are:

The University of Warwick Science Park (UWSP) – which has operated since 1984 – with its own buildings for initial incubation, ‘grow on’ space and major single occupancy plus later satellite sites at two other locations with a major focus on incubation activity and which have led to niche market clusters of businesses.

UWSP offers several services to client businesses – e.g. ‘CLUSTERS’, ‘Ignite’, ‘KITTS’, ‘Minerva’, ‘ShellSTEP’, ‘Stepenterprise’, ‘TTP’, ‘Techmark’.

UCLan (University of Central Lancashire) was recently judged, in the latest Higher Education – Business and Community Interaction (HE-BCI) survey to be the best in its region for the number of business start-ups by its graduates.

Campus Ventures is a technology business incubator located at the University of Manchester but which also provides a base for the business incubation work of Manchester Metropolitan University. It has been used as model for other business incubation projects.

The Food Business Incubation Centre at Loughry Campus in Northern Ireland. Opened 10 years ago it has a pre-incubation programme for businesses planning to rent (on licence basis) one of the 8 purpose built food processing factory units that enable new businesses to operate in totally suitable and legal conditions.

UKBI member Coventry University has (July 2008) been named by EBN (European Business & Innovation Centre Network) as the best university in Europe for creating new businesses from students’ work (by supporting ‘spin-offs’ and business incubation initiatives).

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Other ‘Incubators’:

The other significant forms of business incubators should not be overlooked and they are:

‘Social Enterprise’ Business Incubators:

Although these are run on commercial lines – i.e. they should be self-financing, there is a slightly different ethos to that of those run by operators who are shareholders and expect to benefit from the profits of operating the centres, whereas the ‘social enterprise’ operations are in existence to provide benefits to the community and surpluses are not distributed to the owners.

An example of a Social Enterprise ‘Incubator’ is Wandsworth Youth Enterprise in London. It uses the income from ‘managed workspace’ to provide 25 subsidised business units for young people aged 18 - 30 needing start-up premises. The subsidised units, which are on flexible letting terms, are provided with centralised services, free business counselling and training services. There is a philosophy of encouraging personal development and an entrepreneurial culture plus regenerating the local community. The ‘mainstream’ managed workspace provides ‘grow on space’ and the whole unit acts as a ‘business incubator’.

***Specialist Business Incubators:***

These are focussed on a single specialist type of business – e.g. bioscience – and as such only form a small but important part of the business incubation sector in the UK, e.g.:

CELS Open Life Sciences Business Incubator at Newcastle on Tyne University and Tetricus at Porton Down, Salisbury.

Digitalinc in Liverpool was the first UK business incubation unit focused on the digital industries. It provides office space, communications infrastructure and business support to start-up businesses in the digital sector.

CIRCE at Castleford in W. Yorks. is a purpose designed building, on the site of a chemical works, offering specialist business units for new chemical or related businesses.

The Ethnic Business Development Corporation, London helps people from ethnic minority communities in S.E. London who are considering setting up in business with a business incubation environment and funding.

Other ways of classifying ‘business incubators’:

When UKBI undertook a ‘mapping’ exercise of ‘incubation environments’ in 2005 it chose to classify them as:

Incubation<sup>5</sup>  
 Science Park<sup>6</sup>  
 Virtual Incubation<sup>7</sup>  
 ‘Other’

and in the responses received to the UKBI questionnaire, 73% of incubation environments identified themselves as ‘non profit’ and 27% as ‘commercial’.

Using ‘Business Incubation’ to assist in ‘Growing’ Small Businesses in the UK:

The situation that developed in Rotherham and South Yorkshire towards the end of the 20<sup>th</sup> Century, i.e. the severe decline in the numbers of units of traditional heavy industry and in numbers of their employees, is not untypical of other areas in the UK. The decline or closure of traditional industries resulted in a need to replace them with new businesses or new units of existing businesses - that would generate business income and employment.

Many of those new businesses in South Yorkshire were, as in the case of most new businesses, either micro businesses or SMEs.

It is accepted in the UK that survival rates of new businesses\* (especially the ‘micros’ and ‘small’ businesses) are highest if they have a ‘support package’ in the early stages. That ‘support package’ can be limited or can be a full ‘business incubation’ package with the latter having become more commonplace over the last 10 years – in part due to Government policies. In 2004 the DTI (Department of Trade & Industry commented that: “it had recognised that enterprise and entrepreneurship was a vital contributor to the health of the economy”. That concept developed into a National Enterprise Agenda - that included plans to build an enterprise culture and to encourage a dynamic ‘start-up’ market with capability for growth – resulting in a favourable climate for ‘business incubation’.

\* = Using the current European definitions of business sizes, as also used by the UK’s DBERR (Department for Business, Enterprise and Regulatory Reform) - formerly the DTI - the classifications are:

- Micro businesses 0 - 9 employees
- Small businesses 0 – 49 employees (i.e. includes ‘micros’)
- Medium businesses 50 – 249 employees

With (as previously stated) over 300 clearly identified business incubation locations in the UK (UKBI, 2008) – which is a high number in relation to the UK population and the number of

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<sup>5</sup> General incubation – i.e. a mixture of business sectors on the site

<sup>6</sup> Site with an emphasis on science and technology based businesses

<sup>7</sup> Use of a Business Incubation Centre’s address to add credibility to a home based business plus possibly telephone answering and re-directed telephone calls and mail services

identified businesses in the UK) – there is little doubt that business incubation is now a significant factor\* in the ‘start-up’ and ‘early days’ business environment in the UK.

\* = in 2006 Professor John Thompson<sup>8</sup> commented that the statistics implied that there was an incubator for every 19,000 SMEs in the UK.

By comparison, earlier this year, EBN (the European Business Incubation Centres Network) reported a membership of 160 Business Incubation Centres, as full members, in 21 countries, with a further 21 as associates - albeit those figures are only a partial representation since as at November 2005, ‘Science Business’ quoted E C statistics that referred to 769 business incubators in Mainland Europe, the Russian Federation and the UK.

Government ‘web-sites’ – e.g. [www.businesslink.gov.uk](http://www.businesslink.gov.uk) and [www.ukinvest.gov.uk](http://www.ukinvest.gov.uk) (UKTI<sup>9</sup>) now provide considerable information on business incubation, business incubators and science parks – reflecting their importance in the business support infra-structure.

The extent to which government support continues to be extended to business incubation seems likely to depend on the political complexion of the next UK government. The fact that the DBERR at its current size and Regional Development Agencies (RDAs) apparently might not (unless the political climate changes by the next General Election) survive the next change\* of Government could be significant factors influencing the future of (publicly funded) business incubation.

\* = General Election required at the latest in June 2010.

Business incubation centres that currently rely in part on public funding should very urgently consider how they can move on to a self-financing basis (whether by means of greater efficiency, higher occupancy rates, higher rent levels, hiring out of conference and meeting facilities to off-site businesses and organisations plus having additional income generating services).

The £5m Business Incubation Development Fund that was launched by the DTI (now DBERR<sup>10</sup>) in 2005 and managed on its behalf by UKBI provided support for business incubators (primarily in disadvantaged areas) has been fully committed and has come to the end of its life.

The construction of further business incubation centres in the UK will need to be very carefully considered by potential operators. It may be that, with a few exceptions, only those proposed new incubation centres that have a fairly certain supply of potential ‘incubatees’ – e.g. those linked to universities – have a promising future.

### ***The Clear Value of Business Incubation:***

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<sup>8</sup> Prof. John Thompson - Roger M Bale Professor of Entrepreneurship at Huddersfield University, UK. Member of ISBE

Board.

<sup>9</sup> UK Trade & Investment

<sup>10</sup> Department for Business, Enterprise and Regulatory Reform

It is difficult to do better than to quote from UKBI (UK Business Incubation) which states: “Business incubators have an average success rate of 98% of their businesses succeeding whilst based in the ‘incubator’ and 87% surviving 5 years after start-up”.

With the average stay in ‘incubators’ of 36 – 39 months, these figures compare to the national average survival rate for small businesses after 36 months of 66%. The significantly higher survival rate is there to be seen.

Obviously these figures relate to the UK and other countries’ experience may differ.

Other considerations about performance:

The UKBI comment is impressive in itself but detailed information on the performance of ‘business incubators’ and their occupying businesses is needed for several reasons:

- a. ‘Incubator’ operators need to be able to compare actual financial performance against forecast performance in project plans.
- b. Public ‘funders’ need to be able to judge the impact of their investments. This may link to:

Reviewing performance against targets for:

- Job Creation
- Occupier investment in their businesses
- Sales per capita by businesses (in £).
- Personal Development of business owners
- Increasing employee skill levels
- Increased levels of innovation
- Local regeneration
- Moving businesses on to free-up space for newcomers
- Community involvement – i.e. the social impact
- Dissemination of ‘best practice’.
- Environmental awareness

- c. Data gathered can be used to plan (or otherwise) for future incubators in an area or may be able to be shared with other ‘incubators’ or the potential operators of new ‘incubators’.

Government Support – justifiable or not?

As successive Governments have had both direct and indirect involvement in business incubation in the UK, they are perhaps understandably supportive of the process but there are other schools of thought that question the place of government support for ‘business incubation’.

In 2005, Walter Herriot – the MD of St. John’s Innovation Centre, Cambridge said that “publicly funded small business incubation centres are being constructed without any real understanding of

what they will achieve”. He wanted the RDA’s (Regional Development Agencies) to re-think their strategy – which he felt was providing a physical infrastructure without the ‘networking’ that needed to be in place.

Similarly John Moulton of Alchemy Partners has commented that “funding linked to volume targets was relatively unlikely to generate good companies. We need to aim for quality not quantity”. He apparently felt that government help, particularly financial, could be taken too far.

Bearing in mind that the author himself comes from a commercial, private sector background and is trying to present a balanced view, his view is that there is a probably a mix of incubation centres that can be entirely justified on a commercial basis and others where their creation with public monies has acted as ‘pump priming’ . 8 years ago his own base business centre was the only building at one end of the Manvers development – with a gap of nearly a mile to other buildings. The incubation centre has since created over 470 new jobs (including the on-site Youth Enterprise operation takes that to well over 500 jobs). Now there is an adjacent ‘grow on space’ with larger ‘mixed use’ units (and the site is currently being extended), adjacent ‘grow on’ office space and other ‘design\build commercial units being built for entrepreneurs. This is from a £2.7m public sector initial investment.

Perhaps a fair assessment of ‘business incubation’ could be based on the cost per capita of job creation and the per capita GDP, generated over a 3 year period, for employees in businesses that have been subject to the business incubation process?

The Mechanism of Setting up ‘Business Incubators’:

Setting up a ‘business incubator’ is a similar exercise to setting up most businesses. Whilst some considerations will depend on the physical size of the proposed operation, the basic principles of starting and running a business will apply. There will, therefore, be three main stages:

1. Pre-start
2. Start-up (i.e. opening the doors to businesses)
3. Development

***Pre-start:***

As with any potential business, there needs to be an assessment along the lines of:

- Has the business idea been refined down to a single clear proposition? This leads into:
- Is there actually a market for that proposition and if there is, is it possible to achieve a large enough share of the market to have a viable project? Then:
- Is it possible to gather together the resources (funding, physical and skills) needed?

Depending on the type of ‘incubator’ proposed and the ‘funding package’ available, there will have had to be consideration of the ‘critical mass’ of the ‘incubator’ – in terms of physical size\* and the number of occupying businesses.

\* = it is generally accepted in the sector, in the UK, that a ‘mixed use’ business centre normally needs to be 25,000 - 30,000 sq. ft. of accommodation for full commercial viability. Full commercial viability in this case being defined as with rental income able

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to cover all ‘overheads’ including finance costs.

Finally: Who are going to form the ‘Board’ if to be run by a company or who will form the ‘management team’ if it is to be a ‘public’ project?

Clearly the ‘pre-start’ stage requires significant amounts of research and planning, plus it may well include a combination of bidding for funding and negotiating terms on finance. If (as seen in Rotherham and other areas of the UK) the project includes re-using former industrial land then major soil testing and remediation work may be required before the ground-works for new buildings can commence.

New ‘incubation centres’ will be expected to be good examples of sites geared up for energy conservation and with as small a ‘carbon footprint’ as is economically feasible.

### ***‘Start-up’:***

From the pre-start stage, it will be necessary to move on to commissioning property alterations and/or new build work – including all the latest communication systems for the site and systems to meet the security and administration requirements of the site. Suitable business support staff for the site will need to be recruited and where necessary, trained.

Very few ‘incubators’ are fully occupied as soon as they are ready to receive client businesses. Therefore suitable marketing and ‘networking’ will need to be undertaken by the project team ahead of the actual opening of the ‘incubator’ and again after commencing supporting occupying businesses.

An ‘incubator’ needs to build up to its ‘critical mass’ as soon as possible – i.e. it needs to reach whatever was designated as its target occupancy and income (if appropriate) as soon as possible – certainly within 12 months. During the first phase of operation, say for 18 months, the business support provided needs to be regularly reviewed and assessed as to its successful impact or otherwise. The information collected can then be used for remedial action or in the next (i.e. development) phase.

### ***Development:***

Information obtained in the start-up phase is likely to lead to developments in the ‘incubator’ – e.g. over the second 18 months:

Entry eligibility rules may need to be changed. This could be a ‘tightening up’ – to focus more clearly on the ethos of the project or might be a relaxation once public funding support had expired. Almost certainly an ‘incubator’ will need to ‘fine tune’ the support process in line with clients’ needs whilst demand for space may require a formal exit policy for successful businesses and this links to planning and commissioning of ‘grow on’ space. Last but not least, up-dating of ICT systems will inevitably be required.

*Maturity:*

After 36 months there should be: The start of the significant ‘churn’ of businesses caused by growing businesses moving out – to be replaced by new ‘start-ups’. Fully developed and refined ‘on-site’ business support services. Fully developed and refined links with ‘off-site’ business support services. Very importantly there should be recognition in the local business community of the effectiveness of ‘incubation’.

A successful ‘incubator’ should have businesses that can be used as examples of best practice in fields such as:

Knowledge Transfer  
 Research & Development  
 Quality Control  
 Skills Training

***The Limits of ‘Business Incubation’:***

Perhaps one of the most important truisms in business support is that “Business Incubation will not change a bad business idea into a good one.”<sup>11</sup>

This has to be the most relevant limit associated with ‘business incubation’. It is, therefore, important for ‘would be entrepreneurs’ to have their business projects vetted before being given space in an ‘incubator’ and if necessary, skilled guidance given in appraising a project - so that realism avoids space being allocated to a business that will not succeed and owners do not waste time, money and effort on ‘non-starters’.

‘Business incubation’ is intended to support new small\* businesses through their first few years and to see them grow as successfully as possible. As previously mentioned, in order for ‘business incubation’ to be as successful as possible, the author believes that the support process (in an ‘incubator’ or in a limited geographic area) should be all- encompassing and provide the best possible culture and environment for a new business to succeed.

\* By their nature – with relatively small offices and/or workshop units – most UK ‘incubation centres’ are geared to accommodate new businesses which, in UK definitions, would be either ‘micro’ or ‘small’ businesses but which are assessed as having the scope to grow rapidly (especially in terms of contribution to GDP). The implication of that being:

- initial staff numbers will usually be in single figures
- business management will have specialist (sectoral) skills but will need some guidance on other business issues
- larger new businesses should have a management team with all the skills needed or the finance to buy in specialist skills and may be too large to be accommodated in ‘incubator’ units

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<sup>11</sup> Benson, Filippova and Matushevskaya – July 2007.

Depending on the local business support environment, not all promising new businesses that would benefit from an ‘incubation’ environment may be identified as such whilst they proceed through the ‘pre-start’ or ‘start-up’ phases. They may only be identified when their activities have brought them to public notice and they are too late to access ‘incubation support’.

Alternatively, it may be difficult to find suitable local ‘mentors’ for new businesses operating in highly specialised fields.

In some cases, due to the terms of ‘public’ funding for individual ‘incubation centres’ or management policies to support only certain sectors, some types of businesses – no matter how apparently promising - will be unable to gain access to an ‘incubator’. An example of this would be ‘over the counter’ retailing.

The business support staff (including Advisers) in a ‘business incubator’ can usually only guide the owners on how to successfully develop businesses. If owners choose to ignore correct guidance, then the support staff are usually powerless – unless the terms of an occupancy agreement are breached and the breach justifies action.

#### The Important Role of the Business Adviser in Business Incubation;

As previously touched on, the existence of a ‘business incubation’ scenario implies that support is available from a ‘Business Adviser’. That adviser may in practice need to be a combination of adviser, counsellor, coach and mentor – depending on the issues faced by the owner\owners and the point in the life of the business that the third party support is called on.

In an ideal world, the business adviser is first consulted when the business idea is still in the ‘thought bubble’ stage and the adviser can be any combination of information provider, ‘signpost’ and ‘sounding board’. Even if a total expert on what the client is proposing (relatively unlikely - in that such an adviser is likely to be a ‘specialist generalist’), it is vital not to be judgemental but to guide the client into having enough information and a methodology with which to evaluate the business idea. This may be as easy as guiding the client into a ‘funnelling down’ process or there may be a need for considerable market research leading into a detailed business plan and financial forecasts – in order to be able to form a proper view as to feasibility. It has to be the client who initially decides, by their own efforts, as to whether the business idea is a good one or not. That view might be subsequently challenged by the business adviser, by potential funders etc. but that challenge will be to the position that a client arrived at without prompting or undue influence.

Moving on to the first review of the business plan, related financial forecasts and other information provided by the potential ‘business starter’; it is important for the business adviser to be empathetic with the client. If being self-employed is so easy, arguably more people would be doing it – so it is important to realise the major step that people make if moving from a regular salary (possibly with pension provision) or coming off benefit or disability allowance, into a situation with uncertain income. Potential ‘starters’ may need to develop (very quickly) a whole

new set of skills and business advisers should be constructive when talking to potential business owners about them.

The information in and the work that went into the first version of the business plan are more important than the presentation. A 'fancy layout' can come later. The adviser is hoping to see the basic details of an apparently viable 'business start-up'. It is quite possible that the client may need to be guided to obtain more focussed market research information and as to what (if anything) realistically a Bank might be prepared to lend to the business or investors to contribute and then amend the plan accordingly.

The adviser then repeats the business plan and financial forecasts review process – commenting [constructively] as needed – until it is clear to the client as to whether or not the business seems likely to succeed (at an acceptable level to the owner and any other stakeholders).

NB The adviser should not be writing the business plan – as that would make reviewing it objectively very difficult – but should guide as to content, style etc.

Depending on business type and location, there may be grant funding or other business support available. It is vital that, by means of 'networking', research etc., the adviser is aware of potential current funding streams (sub-regional, regional and national). This is the sort of information that clients may not have or may not know how to locate.

If there is apparently the basis of a good business, the business structure (e.g. sole trader or partnership or limited company) is in place, the necessary funding package is available, the business type matches the eligibility for the incubator building or incubation area, suitable accommodation is available and the owner\owners is\are still 'up for it' - then the business is in a position to start.

Unless there is a large and multi-skilled management team (with support staff), early support required by the business from the 'incubator' may well be partly on relatively mundane matters (handled by the incubator's support staff) with the business adviser focussing on the main business issues.

Bearing in mind that by now the business should have [SMART] objectives and targets as part of its business plan and a definite strategy, it is up to the business adviser to work with the business to see how the plan is working in practice. It is almost certain that there will be divergences – so the important questions will be:

Why is this figure\performance different?

Do we need corrective action and if so what is that action?

The level of involvement of the adviser should reduce as the business settles down and is successful but even then a monthly 'heads up' is a good idea and this is where the coaching and mentoring tends to replace pure advice, counselling or information provision. However, the adviser will need to be additionally involved if the business hits problems or if it is expanding and in any case, until a business is genuinely self-sufficient\*, involvement should be maintained.

\* = In a typical ‘incubation’ scenario this is likely to be at the 36 – 39 months stage and even then the Adviser may remain involved when the business has moved ‘off-site’.

Finally, back in the pre-start discussions, there should have been consideration of the future exit strategy or strategies – for outside stakeholders, if appropriate, and most certainly for the owner\owners. It does no harm for a business adviser to check if a business is still working towards that strategy or strategies.

From the above comments, it can be seen that a Business Adviser operating in a business incubation environment needs to be able to use a variety of interviewing techniques and be comfortable in advising, coaching, counselling and mentoring scenarios. The Adviser needs to be able to work with businesses from those at the pre-start stage through to first or second stage development and to have a wide network of relevant support sector contacts that can be called upon.

### ***Realism:***

Apart from in areas where there is a dearth of premises for start-up businesses; as business incubation centres are likely to have [higher] rental costs, that reflect the full package of support services, those rental and services costs (whether £12 per sq. ft. p.a. or £29 per sq. ft. p.a.) need to be seen to represent value for money. If not, then ‘market forces’ will result in businesses going to cheaper ‘standard’ accommodation – even though (due to the potentially lower levels of support) that could be to the disadvantage of businesses and (due to low occupancy) result in incubation centres that are not economically viable .

‘Business incubation’ cannot protect incubating businesses from ‘market forces’ – even if those forces extend to unfair competition. It is important that incubating businesses fully understand the competitive and litigious world in which they operate.

Involvement by incubation centre support staff has to be at an appropriate level. In the UK, an Adviser may not be able to be as involved as much as he/she wishes. Any possibility of over-involvement – i.e. in management decisions in a company - has to be avoided – in case the Adviser could be deemed to be a ‘shadow director’ and thus risk penalties if a company had to close down due to trading or legal difficulties.

The author believes that ‘business incubation’ is best used in circumstances where new small businesses are ‘knowledge intensive’ and are providing new innovative products and services or significantly improved products and services. That way the businesses are actually finding new niches in existing markets or opening up new market sectors or in some cases even creating whole new markets.

Therefore, whilst ‘business incubation’ is limited by not being applied to all business sectors it should, if correctly used, have a significant impact on those sectors where it is applied. This leads naturally into the next consideration.

### *Classification of ‘Incubators’:*

In practice there is no UK classification of ‘incubators’ that is directly linked to measurement of success of ‘incubated’ businesses. The only current objective method of judging performance is by means of ‘benchmarking’ of business incubation centres – an exercise that has been successfully undertaken by UKBI.

There are several definitions of ‘benchmarking’ – which is one of the business decision ‘support tools’.

Dictionary definitions are: “A standard against which something can be measured. A survey mark of previously determined position used as a reference point.”

For the purposes of this paper, it is also useful to refer to the European Commission initiative ‘Benchmarking in Europe’ which defined ‘benchmarking’ as:

“A practical tool for improving performance by learning from best practices and the processes by which they are achieved”.

In view of the need (for economic success and maximum beneficial impact) to ensure that ‘business incubation’ is as successful as possible at all locations where it is part of the business support process, ‘benchmarking’ of incubation is obviously very important. The measures of success referred to earlier (in The Clear Value of Business Incubation section) were mainly ‘smart’\* targets – albeit some were related to softer ‘social’ targets and were taken from UK ‘incubation’ projects.

(\* = in this case ‘smart’ = specific, measurable, achievable, realistic, time based)

As a separate project, the writer has been involved with business consultants on devising a potential measurement system that measures the success of ‘incubated’ businesses and which could be used on an international basis.

This is done by means of the businesses completing a standard questionnaire. The answers from the questionnaires generate (weighted) scores that allow comparisons of success between businesses in different business incubation environments in the same region or in different countries or on different continents.

The initial findings [perhaps unsurprisingly] reflect that, on average, businesses that had gone through an ‘incubation’ process generated better scores than those that had received ‘standard’ support.

It would be useful for the limited initial survey process to be refined and sufficient personnel made available at incubation environments for sampling to generate fully valid statistics.

What would happen without Business Incubation?

Without ‘Business Incubation’ there would apparently be a smaller stock of established (i.e. at least 36 months old) businesses in the UK. That comment is based on the following statistics:

Average Survival Rates of UK Start-up Businesses at 36 months
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Located In Business Incubators	VAT Registered Businesses	All start-ups
90% <sup>12</sup>	71% <sup>13</sup>	41 - 49% <sup>14</sup>

The UKBI figures represent a decrease in the ‘incubated’ survival rate since 2007 but the significant difference between ‘incubated’ start-up businesses and all start-up businesses is there to be seen.

Whether the additional GDP, generated by incubated businesses over and above the GDP generated by those businesses that have been left to their own devices, is equal to or more than the costs to taxpayers of the publicly funded elements of business incubation in the UK is a question to which the answer is unfortunately not readily available.

However, NESTA states that: “a well-managed business incubation environment can play an important role as an ‘anchor’ in a region, ensuring that an essential range of valuable skills and other capacities remain in place and are accessible to a wide group of small businesses and entrepreneurs, thereby driving regional competitiveness.”<sup>15</sup> The absence of such an ‘anchor’ increases the risk of loss or dispersal of such skills.

NESTA also states that: “the more than 12,000 businesses in business incubation environments in the UK are indirectly estimated to support some 41,000 businesses in their local area or sector. Firms based in Sheffield’s Technology Park are estimated to have added £50m to the city’s economy in a five year period.”<sup>16</sup>

Even accepting that some businesses in ‘business incubators’ will have gone through a selection process based on likely viability (providing a higher likelihood of survival even before on-going intervention by ‘incubator’ staff), it is reasonable (based on the statistics given above) to believe that, without the additional support provided in incubation environments, a smaller number of new business would have survived had they all been created outside the ‘incubators’.

### ***Conclusions:***

- A building with the title Business Centre, Innovation Centre or Technology Centre does not guarantee the existence of a ‘business incubation’ environment. It is the business support process that is the critical consideration.
- That business support process needs to be carefully planned, delivered in a structured way and suitably maintained.

<sup>12</sup> UKBI

<sup>13</sup> DTI Small Business Service 2007 (Newer figures not available)

<sup>14</sup> Lowest - the ONS and HMRC 2008, highest - Enterprise Connection

<sup>15</sup> NESTA Policy Briefing – Business Incubators, November 2008

<sup>16</sup> NESTA Policy Briefing – Business Incubators, November 2008

- With around 300 clearly identified ‘business incubation centres’ in the UK, there is little doubt that ‘business incubation’ is now a significant factor in the ‘start-up’ and ‘early days’ business environment.
- Continuing Government support for ‘business incubation’ cannot be taken for granted. Business incubation centres that currently rely in part on public funding need to consider how they can move on to a self-financing basis.
- The construction of further ‘business incubation centres’ will need to be very carefully considered (in terms of financial viability) by potential operators.
- In a ‘free market’ scenario, ‘business incubation centres’ where there is demand, with good track records for business support and with successful clients will normally be those with the highest occupancy rates.
- The quality of the support staff in ‘incubators’ and of the business advice available to ‘incubating’ businesses will have an impact on the levels of success of those ‘incubatees’.
- The business incubation process apparently significantly increases business survival rates.
- With numerous highly successful ‘business incubation centres’ or clusters of ‘incubation centres’ across the UK, there are many examples of ‘best practice’ that could be used as models for new ‘incubators’ or for struggling business incubation environments requiring revitalisation. As people like to talk about their success or successes, they are a good starting point for enquiries. After all, imitation is the sincerest form of flattery isn’t it?

#### ***Acknowledgements:***

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