

BENCHMARKING OF BUSINESS INCUBATORS

in the Republic of Moldova

by

Aurelia Braguta

BENCHMARKING OF BUSINESS INCUBATORS in the Republic of Moldova

1. Does a business incubator need to have a business plan prior its establishment?

Need for Business Plan

The business plan should be the result of a carefully conducted feasibility study that determines the viability and type of incubator. The business plan then becomes the guide to action and performance evaluation tool for the incubator. It sets out the rationale for the incubator, its objectives, operational policies and procedures and marketing and financial strategies and budgets and like any other business plan it should be updated every three years.

2. What are the criteria of success of a business incubation process?

Criteria for Success

Criteria for success is directly tied to the mission and objectives of the incubator that are set by the primary stakeholders of the project. Since most incubation projects are related to economic development strategies the stakeholders generally involve local and regional governments, labor and youth groups, NGOs, business associations and educational institutions. Their criteria for success generally include:

- a- number of new jobs created (75% of global incubators rate this as their most common criteria of success)
- b- diversity of local economic activity
- c- ability to make region more competitive
- d- reduction of small business failures
- e- attraction & retention of new small businesses
- f- retention of youth (particularly university graduates)
- g- commercialization of research from university labs (technology transfer)
- h- generation of individual wealth
- i- growth of local artisans
- j- assistance to disadvantaged
- k- facilitation of privatization

3. What kind of services should a business incubator provide?

Services to be Offered

The range of services provided by the incubator will vary by the type of incubator and the primary objectives of the stakeholders. Services can be divided into 2 main types, professional and client support services

Professional services are generally offered in the following areas:

- a) pre-incubation advice with business plan and registration
- b) pre-incubation concept and entrepreneurial assessment
- c) milestone setting and performance targeting
- d) business function skills (marketing, finance, operations, bookkeeping & team building) assessment & training

- e) business management skills (planning, organizing, directing & controlling) assessment & training
- f) assistance with early engineering & proto type development
- g) assistance with organizational building (advisory boards and senior management teams)
- h) assistance with professional networking internally with other entrepreneurs and externally with business community (Chamber of Commerce, business & professional associations, and venture forums)
- i) assistance with early financing (early bank loans, angel and commercial finances)
- j) assistance with aspects of e-business and IT systems (operational and marketing)
- k) assistance with export

Client Support Services are generally offered in the following areas:

- a- shared reception
- b- shared meeting and board rooms
- c- shared office services (photocopying and fax services)
- d- shared lunch facilities
- e- shared bookkeeping and accounting services
- f- quarterly networking events (internally and externally)
- g- monthly CEO roundtables to discuss shared resources, ideas & services
- h- flexible space for clients to grow within incubator
- i- community services such as meeting & board room rental after hours
- j- consulting services beyond those contracted with entrepreneurs

4. How long incubation period to chose for a tenant?

Length of Incubation Period

The length of incubation period is directly related to the type of incubator that is determined in the feasibility study. For instance a biotechnology incubator entrepreneur will require much more time in the incubator than will a mixed use light manufacturing incubator client.

Academic incubators generally require 1 to 2 years; mixed use light manufacturing incubators generally require 2 to 4 years; technology incubators 3 to 5 years; and specialized technology incubators (bio & nanotech) generally take 5 to 7 years.

5. How many incubator place do you need and what kind of facility?

Size of Incubator & Type of Facility

The size and type of incubator are again directly related to the feasibility study that will reflect the needs of the stakeholders, the economic profile of the community and the economic development strategy of the government agency that is the primary funder of the incubator.

Generally the type of incubator can be segmented into the following segments: *academi incubator*, supported by a particular university, eg. The Academy of Academic Studies of Moldova, Moldova; *municipal incubator*, supported by local government, eg. The Hamilton Incubator of Technology, Canada; *community incubator*, supported by a local community

group, eg. The Timok Club Incubator, Serbia; and *artisan incubators* supported by local arts groups eg. Toronto Garment Incubator, Canada.

Surveys by Canadian Business Incubators, during 2004, reveal that the average size of incubators (total space) in America is approximately 3,500 sq meters whereas in Europe in 3,010 sq meters. In America most incubators attempt to maintain an 85% occupancy rate which is similar to Europe.

1. Who are the stakeholders/local alliances of the business incubators?

Stakeholders

Basic direct stakeholders in successful incubation projects include:

- a- Local government departments of economic development and small business Who must encourage, not stifle business growth through reducing bureaucratic polices and improving property rights.
- b- Universities and educational agencies who must supply knowledge workers, supply business skills, retrain workers and commercialize ideas.
- c- Banks & investors who must supply risk capital at all stages of small business development from concept through to market expansion.
- d- Community leaders who must create and positive business environment and change many cultures to be more positive with small business start-ups.
- e- Global Best Practices must be constantly monitored to determine better practices in operation and management.

Indirect stakeholders involved established large and medium firms who supply the critical supply chain to purchase goods and services from start-ups as well as the knowledge base for mentoring and advisory boards. Also critical in this area are the media. The media are the ones who can share the success stories and encourage new entrepreneurs to pursue their concepts and consider careers in small business.

2. How to finance business incubators?

Financing of Incubator

The feasibility study should indicate the availability of potential funds for the incubator and the business plan will put the details around the funding and the uses of the funds. Generally, *capital funding* for incubation comes from

Public sector	50%
International agencies	20%
Private sector	10%
R&D centres	5%
Other	15%

Generally, *operating funding* for incubators come from

Rental income	40%
Public subsidies	30%
Service contracts	10%
International agencies	10%
R&D centres	5%
Private sector	5%

8. How to create clusters and network of enterprises?

Clusters & Network for Enterprises.

Clusters are key to creating favorable business environments for developing businesses. They help by creating critical masses, pooling resources, finding partners, sharing knowledge and even sharing resources. In developing countries they can be important in speeding up change and stimulating privatization.

Some recommended steps in the developing of clusters are:

- a- Identify, analyze and classify existing small businesses with similar characteristics, suppliers and work forces.
- b- Analyze success clusters to determine their factors of success
- c- Develop cooperation agreements between competing and complimentary small business with an objective of win-win
- d- Develop programs to assist these businesses to share resources, information and new knowledge bases.
- e- Develop programs to assist local authorities to better understand the infrastructure needs of these clusters and improve their support to them.

9. How to select the best possible incubator manager?

Selection of Incubation Manager

The selection of the 'right' incubator manager is a most important task in the operation of the incubator. The responsibilities of the manager include, but are limited to:

- the daily operations of the incubator
- the monthly budget management
- recommendations on the admissions & exits of entrepreneurs
- training and networking of the entrepreneurs
- selection and coordination of the mentorship team
- monitoring the progress of the incubating companies
- facilitation of the acquisition of funds for the incubating companies

It is viewed as paramount that this person comes from the private sector, is none public sector senior administrator, and understands the entrepreneur and their desire to work in a creative and dynamic environment. Further, they need to have a sound understanding of planning, organizing, directing and controlling as it relates to small business and have a working knowledge of bookkeeping, financial loans and marketing.

10. How to select the business incubator supervisory board?

Selection of Incubator Supervisory Board

The incubation supervisory board should be made up of no more than 8 members plus a voting chair. Recommendations are that it include the following:

- local government member from economic development department
- local labor association member
- local bank representative in charge of small business loans
- member of small business association
- member of university faculty in charge of small business program
- member of university in charge of continuing education
- member of Chamber of Commerce business development committee
- member of local venture forum

11. How to evaluate the activities of the business incubators, science and technoparks?

Evaluation of Incubator Activities

Evaluation is a key to successful incubation. The purpose is to assure the incubator stakeholders that the project is meeting its objectives in an effective and efficient manner. Measurements of effectiveness and efficiency from the individual incubators should be compared to other incubators of similar nature both locally and internationally.

Specifically measurements should be taken to determine if the incubator is meeting the objectives of the stakeholders. For example if the stakeholders have determined if job creation is a major objective then job creation per firm should be measured and if survival rate of new start-ups is important then number of startups divided by number of firms in existence in 3 years should be calculated.

Other measurements that may be taken are:

- incubator cost (capital & operating) per start up
- occupancy rate (space rented vs total space available)
- client satisfaction
- job creation per firm (number of full time jobs per firm)
- survival rate
- break-even (income less operating costs)
- annual graduation rate (tenants graduating over tenants staying)

12. What are the criteria of the sustainability of business incubators, science and technoparks?

Criteria for Sustainability

Sustainability generally refers to the ability of the incubation program to be financially sustained after 7 to 10 years. In some cases where real estate rates are charged at market rates or increased to meet markets rates at clients approach graduation this objective is attainable. However other factors, than financial sustainable need to be determined in order to determine incubation success. These factors generally involve such things as:

- job creation targets
- new company attraction and retention
- company graduation rate per year
- entrepreneurial satisfaction levels
- new business survival rates
- new local partnerships created
- publicity generated