

## **BUSINESS INCUBATORS AND ACCELERATORS - INSTRUMENTS IN THE DEVELOPMENT OF THE BUSINESS ENVIRONMENT**

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**ABSTRACT:** *The importance of business incubators and accelerators to increase business competitiveness and develop entrepreneurial skills is an important factor in studying their typology and how to implement them at regional level. In this paper, after highlighting some conceptual approaches regarding business incubators and their classification according to different criteria, we have shown the stages of the operational process within a business incubator. At the end of the paper we have shown the context of the implementation of business accelerators as a direct effect of the incubators and to amplify the effects of the technology-innovation-entrepreneurship synergy.*

**KEY WORDS:** *business incubators, business accelerators, sustainable economic, entrepreneurship.*

**JEL CLASSIFICATIONS:** *D21, L26.*

### **1. INTRODUCTION**

Entrepreneurship is at the heart of sustainable economic growth and the state has to find various tools to use as catalysts and even accelerators to design and develop entrepreneurial tools to support the development of companies, regardless of their size.

In the long run, it has been shown that new and small businesses usually fail because of the lack of managerial skills or access to capital. Science parks, incubators and accelerators are TBF mechanism considered to be important policy tools for supporting innovation and technology-oriented entrepreneurial growth. Their popularity is premised on the belief that these mechanisms provide critical value-added inputs essential for the creation and development of innovative Technology-Based Firms (Mian, et al., 2016).

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In this context, the business incubator has become an attractive and widely accepted instrument used to increase the survival chances of new business projects and to support the development of an attractive business environment. The concept of business incubation is founded on the premise of increasing the survival and growth of firms by developing mechanisms that will ensure the early identification of those firms that have great potentials for success but are constrained by resources (Fidelis, et al., 2016).

*The major objective of the incubators* is to ensure local development and jobs by providing incubated firms with facilities such as consulting in business plans, marketing, business management or branding, as well as finding a modular building with the necessary utilities (computers, internet).

## 2. LITERATURE REVIEW

The first definition of the business incubator was given in 1998 in Helsinki in the workshop "Best Practices in Incubator Infrastructure and Innovation Support" (Helsinki, 1998), and according to this *the business incubator is a place that comprises early stage companies in a limited office space.*

The National Business Incubation Association defines the business incubator as "an economic development tool designed to accelerate the growth and success of entrepreneurial companies through a series of resources and services that support the business" (NBIA, 2002).

The literature recognizes several generations of incubators:

- the first generation, which appeared in the early 80s, provided non-value-added resources (such as office space, secretarial services and office equipment);
- the second generation, which appeared in the early 90s, had a qualitative range of services and also provided funds for tenant companies;
- the third generation appeared in the early 2000s and focuses on technology projects and the provision of resources through networks (Gabarret, et al., 2016).

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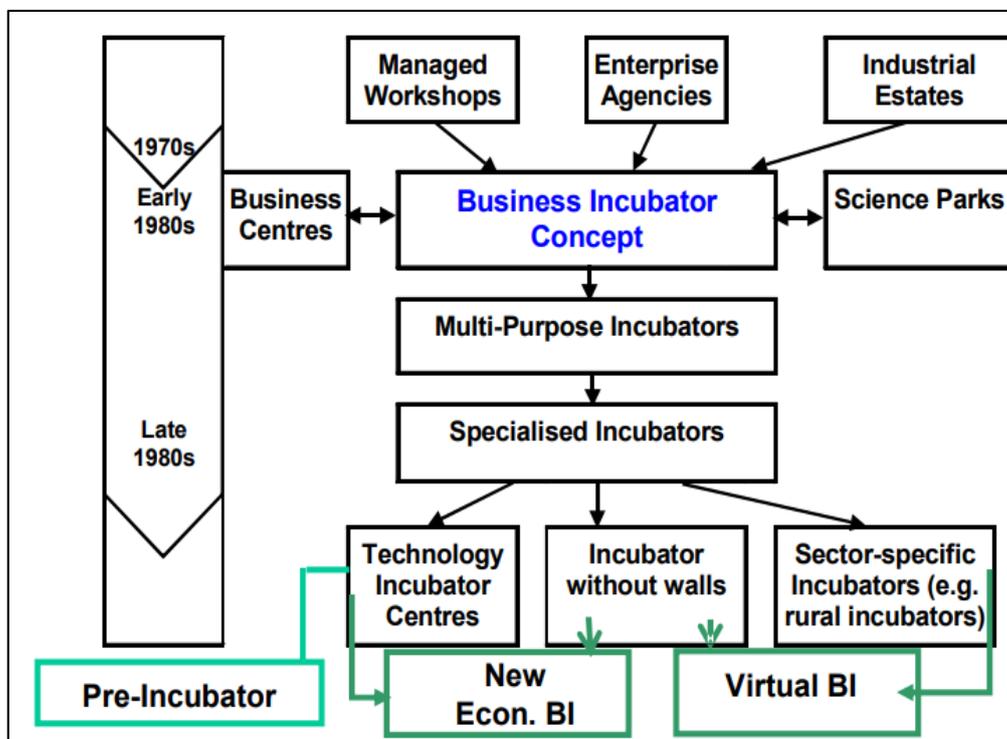
The incubation concept aims at achieving some fundamental objectives which include to create new jobs and businesses, foster a climate of entrepreneurship, commercialize technology, diversify and accelerate growth of industry and local economies, reduce company mortality rate, reduce unemployment, increase university-incubation interaction and foster technology development (Tuclea, et al., 2015).

### 3. THE INCUBATION CYCLE

Therefore, business incubators have a complex structure that can be classified according to various criteria.

From operational point of view, the business incubator covers a wide range of processes that help reduce firms' failure rate and accelerate the development of those that have the potential to become job and welfare generators, while from a structural point of view incubators includes three key elements, namely an entrepreneurial and training environment, access to mentors and investors, and market visibility.

A business incubator cooperates with the community in which it operates to provide business assistance programs, and entrepreneurs who place their businesses in such an incubator as "consumers" act in an interdependent co-production relationship with the incubator (Tuclea, et al., 2016).



Source: [http://www.urenio.org/e-innovation/stratinc/files/library/ict/51.ICT\\_startups.pdf](http://www.urenio.org/e-innovation/stratinc/files/library/ict/51.ICT_startups.pdf)

Figure 1. Development of the business incubator concept

Given their scope, the types of incubators that can be set up are the following (Dobre Ciobanu, 2016):

- business incubators with a mixed portfolio targeting SMEs with growth potential in various fields of activity;

- *technological business incubators* where SMEs aim to hold a competitive advantage through modern manufacturing technologies and data transmission;
- *academic business incubators* that involve the implementation of research and development outcomes within a university or research institute and / or the development of entrepreneurship in universities;
- *agro-incubators* created as a result of the cooperation between research institutes and local public administrations in rural areas;
- *business incubators in the social field* implemented in partnership with non-governmental associations and administration;
- *virtual incubators* that have emerged as a consequence of the development of the information technology and the Internet and are currently the most prolific types of incubators.

Starting from the structure of the services provided, business incubators will also fall into the following categories:

- ✓ *traditional incubators* that aim at developing companies that allow a rapid change of production technologies;
- ✓ *technological incubators* specific to companies whose products or services are the result of scientific research;
- ✓ *cultural incubators* are the ones that support activities such as music, painting, photography, etc.;
- ✓ *social incubators* that encourage social activities with nonprofit characteristic;
- ✓ *business incubators* that create an environment conducive to the development of small and medium-sized businesses which have strong profit-oriented goals.

Considering the location, there are *urban area incubators* (usually traditional and technological incubators located in cities), *suburban area incubators* (located around cities) and *rural area incubators* (the development of which is closely linked to centers of agricultural production) (Tuclea, et al., 2015).

In Romania, starting with 2016, the legal framework for the development of incubators was established by the adoption of *Law no. 102 on business incubators* which imposed the following conditions for the setting up of incubators: the creation of at least 32 jobs and the incubation of a minimum of 16 companies in the case of *general incubators*, and the creation of a minimum of 20 jobs and incubating a minimum of 10 companies in the case of *sectorial incubators*.

Incubators manage both an external and an internal inter-organizational field, to which they connect their incubatees. Externally, the incubator should foster business connections between tenants and outside firms, government agencies, and other sources of commercial relevance.

Internally, the incubator should facilitate relationships among a pool of resident businesses and administrative staff of the incubator (Schermerhorn, 1991). The time spent by a company within a business incubator is called *incubation cycle* and it provides support services such as the use of office space, financial support, and consulting services through several stages:

**Table 1. Stages of the incubation cycle**

<b>Stage</b>	<b>Period</b>	<b>Services</b>
<b>Pre-incubation stage</b>	This period spans a maximum of 6 months and it involves choosing the future company and signing the incubation contract	<ul style="list-style-type: none"> <li>✓ Assistance to identify a business idea /project;</li> <li>✓ Analyzing and assessing the business idea;</li> <li>✓ Advice and training in management activities, intellectual property, organization;</li> <li>✓ elaboration of a feasibility study, a business plan.</li> </ul>
<b>Incubation stage</b>	The period runs from startup to its expansion phase, provided that it does not exceed three years.	<ul style="list-style-type: none"> <li>✓ office spaces equipped with furniture and IT equipment, production facilities;</li> <li>✓ financial and accounting services;</li> <li>✓ legal advice;</li> <li>✓ access to classrooms and conference halls;</li> <li>✓ marketing services, including market research;</li> <li>✓ assistance with workshops, fairs, exhibitions and other promotional activities</li> <li>✓ the use of secretarial services;</li> <li>✓ business support services, IT assistance, consultancy for obtaining reimbursable and non-reimbursable financing;</li> <li>✓ personnel recruitment services;</li> <li>✓ other services.</li> </ul>
<b>Expansion stage</b>	Companies are no longer hosted in the incubator and their activities are specific to mature companies.	<ul style="list-style-type: none"> <li>✓ assistance to increase sales;</li> <li>✓ implementation of innovations;</li> <li>✓ consulting services to evaluate the efficiency of post-incubation activities;</li> </ul>

Within the incubator, the resident company has rights and obligations, such as to use the infrastructure, to benefit from the services provided by the incubator, to create at least one new job within six months of obtaining residence in the incubator, to comply with the contractual conditions, including the financial ones relating to the use of space, if any. An essential advantage of being in an incubator is that businesses relate and share ideas, become business partners, create a network of connections, etc.

Obviously, there are some shortcomings in the use of incubators, first of all due to the obligation to maintain the company's activities within the incubator for a period of three years, to keep its employees throughout the period in which the beneficiary is being incubated and not to alienate the goods acquired during incubation for a period of 3 years.

#### 4. BUSINESS ACCELERATORS

While in incubators companies learn to start a business, there is an instrument called business accelerator that helps them move on to maturity stage in which they develop institutionally, gaining value and a stable financial profile. They are functional in many systems with capitalist tradition and have appeared relatively recently in the Romanian economic environment (Croitoru, 2016).

A *business accelerator* is an intensive business program that usually lasts three months and includes mentoring, educational activities, networking, and can also include office space and shop-floor for tech startup only. The purpose of creating such a program is to speed up the business and ensure a quality information exchange and the development of business networks by connecting different niche markets.

For a business that has grown and has been operating within an incubator for three years, the next step is to participate in a business accelerator. Thus, if in an incubator the company had access to a work space that also included the necessary services required by new company, within an accelerator, there are mentoring and investment programs, workshops, specialized workshops.

In Romania, business accelerators are very few and less known. For domestic companies that want to be included in an acceleration program, there are two methods available, namely: to apply directly on the main accelerators' sites in the world or to participate in various start-up events in Europe.

Participating in an accelerator often involves giving up between 5% and 9% of the business as an initial investment to cover the expenses of the founders during the unreeling of the program, and on average, the investments of an accelerator do not exceed €30,000.

During the three months spent in an accelerator, entrepreneurs can develop their business presentation capabilities, both in terms of planning and market potential, so as to convince potential investors of the efficiency of their investment.

In general, acceleration programs end with a Demo Day where participants present their ideas to investors.

Depending on the pace of business development and funding, accelerators can be:

- *primary accelerators* that fully or partially cover the initial investment in exchange for shares and they are focused on business innovation;
- *secondary accelerators* that focus on the rapid expansion of the business by entering international markets.

In Europe, the best-known technological start-up accelerators are SeedCamp, TechStars, Oxygen and Founders Institute in the UK, StartupBootcamp in Dublin, Rockstart in the Netherlands and TechPeaks in Italy.

In Romania, there are several pre-selection programs with an educational component, such as:

- *Innovation Labs*, which hosts two 24-hour events in the form of a hackathon presenting the business ideas of the participants to the mentors who support them during the program and the best projects are selected at the end for funding;

- *the annual program MVP Academy* carries out a selection of ideas in software, hardware, mobile, robotics, biotechnology, etc. and admitted participants have access to specific educational resources, interact with IT investors, angel investors, investment fund and acceleration program managers.

## 5. CONCLUSIONS

In conclusion, incubators and business accelerators are a tool for launching local entrepreneurial initiatives that can have a significant impact on the economy of a country and can be conducive to the creation of a significant number of jobs.

In order for the incubator and accelerator network to be a solid one it is necessary to use the available resources efficiently while to expand the incubator network it is necessary to improve the legislative framework, to carefully check the incubated companies, to meet performance parameters and to diversify the fields of activity with a different approach based on the experience in the USA and Europe model.

Finally, business incubation is a value-added and a powerful instrument for economic development worldwide. A Business Incubation program is designed to assist businesses to become established and profitable during their start-up phase (Mubaraki & Busler, 2011).

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