

## THE ROLE AND IMPORTANCE OF BUSINESS INCUBATORS IN THE CURRENT ECONOMIC CONTEXT

ALINA NIȚESCU\*

**ABSTRACT:** *In transition to a sustainable economy, the development of the private sector and especially entrepreneurship has an essential role, contributing to the adaptation of society to contemporary challenges and facilitating economic, social and cultural progress. If we consider that entrepreneurship stimulates innovation through the development of new products, services and technologies, start-ups and small companies are often the ones that bring innovative ideas and creative solutions to society's problems. In this context, business incubators play an essential role in supporting startups by providing a favorable environment for growth and scaling, but also in the development of entrepreneurship as a whole.*

**KEY WORDS:** *business incubator, business start-up, entrepreneurship development, sustainable development.*

**JEL CLASSIFICATIONS:** *L26, M13.*

### 1. INTRODUCTION

National economies are currently facing a series of global challenges, some unprecedented, related to economic crises (such as the one caused by the COVID-19 pandemic), geopolitical tensions (such as the war in Ukraine), climate change, the insufficiency of natural resources, energy transition, labor market tensions, regional disparities, innovation, digitization and the use of artificial intelligence in more and more fields. All this describes the current economic context to which both the public and especially the private sector must adapt in order to be able to overcome obstacles and contribute to a sustainable and equitable development both from an economic, social and ecological point of view.

Given that small and medium-sized enterprises are the "backbone of the economy", being the main providers of jobs and social stability and stimulating entrepreneurship and innovation, they have a crucial role in the sustainable

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\* Assoc. Prof., Ph.D., University of Petroșani, Romania, [alinanitiescu@upet.ro](mailto:alinanitiescu@upet.ro)

development of the European economy (European Comision, 2019). Thus, the European Union, through various programs and initiatives, aims to promote entrepreneurship and improve the business environment for SMEs, allowing them to reach their full potential (European Commission, 2019). In this regard, we mention:

- The InvestEU programme, which, among other things, aims to finance SMEs, including innovative enterprises and those in the cultural and creative sectors (<https://eur-lex.europa.eu/RO/legal-content/summary/investeu-programme-2021-2027.html>);
- The Horizon Europe program which is the main EU funding program for research and innovation ([https://eur-lex.europa.eu/legal-content/RO/TXT/HTML/?uri=LEGISSUM%3Ahorizon\\_europe](https://eur-lex.europa.eu/legal-content/RO/TXT/HTML/?uri=LEGISSUM%3Ahorizon_europe));
- The StartUp Europe initiative, which aims „to connect high tech startups, scaleups, investors, accelerators, corporate networks, universities and the media” (<https://digital-strategy.ec.europa.eu/en/policies/startup-europe>);
- The SME Strategy for a sustainable and digital Europe, through which „the European Commission wants to support and empower SMEs of all sizes and sectors, from innovative tech start-ups to traditional crafts.” (<https://eurlex.europa.eu/legalcontent/EN/TXT/?uri=CELEX:52020DC0103>);
- The Erasmus for Young Entrepreneurs program "which offers new or aspiring entrepreneurs the chance to learn from experienced entrepreneurs running small companies in other participating countries" (<https://www.erasmus-entrepreneurs.eu/index.php?lan=ro>).

In this context, the importance of business incubators in supporting economic development and innovation, in creating the necessary premises for a healthy and flexible business environment, capable of adapting to rapid changes and generating sustainable economic growth is undeniable.

## 2. THE IMPORTANCE OF BUSINESS INCUBATORS IN THE ECONOMY

Business incubators are essential structures for the development of entrepreneurship, providing logistical, financial, educational and technical support for businesses that have development potential but are constrained by a lack of resources (Ayatse, et al., 2017), thus contributing to the transformation of innovative ideas into businesses viable, with a positive impact on both the business environment and the local and global economy.

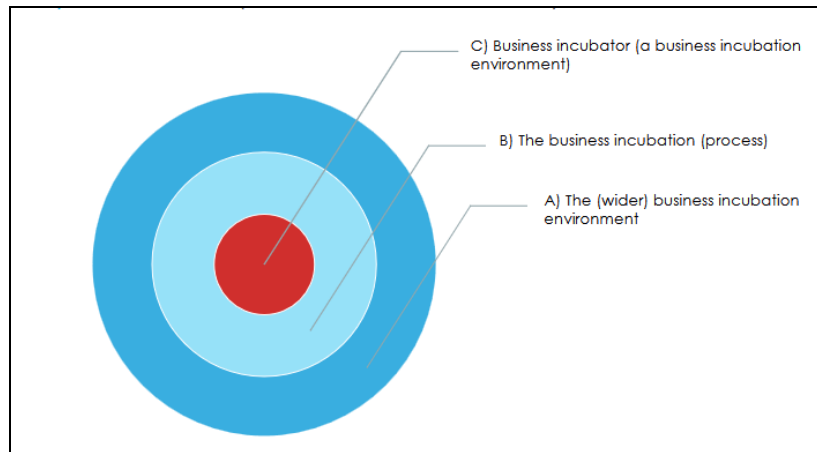
Starting from the premise that "startups and scaleups are key to Europe's future economy and society" (European Commission, 2021), the importance of business incubators is obvious, as they are specially designed to support both the successful establishment of businesses and future development of them (Curtea de Conturi Europeană, 2014). A broad description of the concept of business incubation is made by the World Bank and presented in Figure 1.

According to this approach, business incubation requires the simultaneous existence of:

- a) The wider business incubation environment which includes external factors such as infrastructure, government policies, financial support, local markets and partner

networks, all of which contribute to the sustainable development of businesses and to stimulating their growth.

- b) The business incubation process that aims to initiate businesses and support them, at different stages, with a view to sustainable growth.
- c) Business incubator defined as the physical space that accommodates a business incubation process.



Source: World Bank, *Business Incubation Definitions and Principles, Trainee Manual*. Available at: <https://documents1.worldbank.org/curated/pt/717091562157862660/pdf/BIM-Module-1-Business-Incubation-Definitions-and-Principles.pdf>

**Figure 1. The Global Incubation Community**

Being aware of the fact that businesses at the beginning of the road are "extremely fragile because the lack of resources" (Manconi et al., 2022) and the beginning of the life cycle of a company is the moment when it needs the most support, being most exposed to the risk of failure (Curtea de Conturi Europeană, 2014) in the specialized literature, a series of key roles performed by business incubators have been highlighted:

- offering support for business initiation, but also for managing the obstacles faced by entrepreneurs (Șchiopu et al., 2015);
- providing physical facilities and intangible support for young businesses (Pattanasak et al., 2022);
- motivating new entrepreneurs to turn their business idea into a real business (Li et al., 2020);
- creating value by combining the entrepreneurial spirit of start-ups with the resources that are usually available to new businesses (Li et al., 2020);
- providing profitable and sustainable companies over time, led by entrepreneurs with extensive management experience and high qualifications (Del Campo Villares et al., 2020);
- direct and positive impact of business incubators on the survival of startups during the COVID-19 pandemic (DeEsteban et al., 2022).

Also, studies in the specialized literature have focused on specific situations in different countries such as Pakistan (Li et al., 2020), Spain (Del Campo Villares et al., 2020; DeEsteban et al., 2022), Thailand (Gerdsri et al., 2021), Indonesia (Habiburrahman et al., 2022) etc., all of which emphasize the important role and positive contribution that business incubators play in national economies.

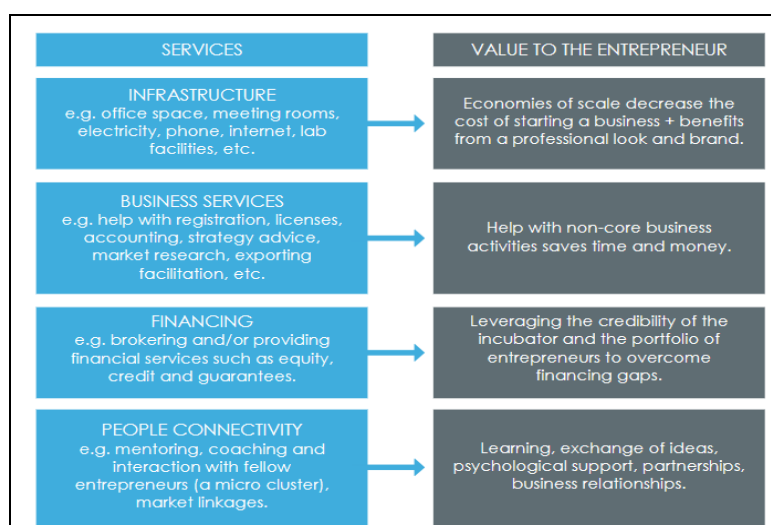
Business incubators represent an important engine for economic development, favoring the growth of entrepreneurship, innovation and competitiveness both locally (Isac, 2017) and nationally. They can help transform innovative ideas into successful businesses by providing specific resources such as mentoring, workspaces, access to investor networks etc. thus lessening the challenges a new business faces. Subsequently, the businesses supported by the incubators contribute to increasing the number of jobs in the community and can become important employers locally and nationally.

Due to the specificity of the activities and the fields they support, business incubators can be found in various forms, such as: general or multifunctional incubators that support businesses from various fields without focusing on a specific sector; specialized incubators that focus on specific sectors, such as IT, biotechnology, agriculture, energy or creative industries; academic incubators that are associated with higher education institutions and that provide support to students and researchers to turn ideas into viable businesses; social incubators that support social entrepreneurship initiatives, which aim to solve community or social problems; corporate incubators that are managed and funded by large corporations to encourage innovation in areas complementary to their core activities; virtual incubators that offer exclusively online support, eliminating the need for a physical space and expanding access to resources for entrepreneurs from any location; rural incubators dedicated to supporting businesses in rural areas, promoting local economic development; technology incubators focused on technology start-ups, supporting innovation through access to laboratories, equipment and specific mentoring.

If we consider the fact that incubators attract startups from various sectors and promote innovative industries, such as technology, green energy or biotechnology, we can conclude that they contribute significantly to diversifying the local economy, reducing dependence on certain dominant industries, increasing regional competitiveness and investment attractiveness.

### **3. SPECIFIC SERVICES PROVIDED BY BUSINESS INCUBATORS**

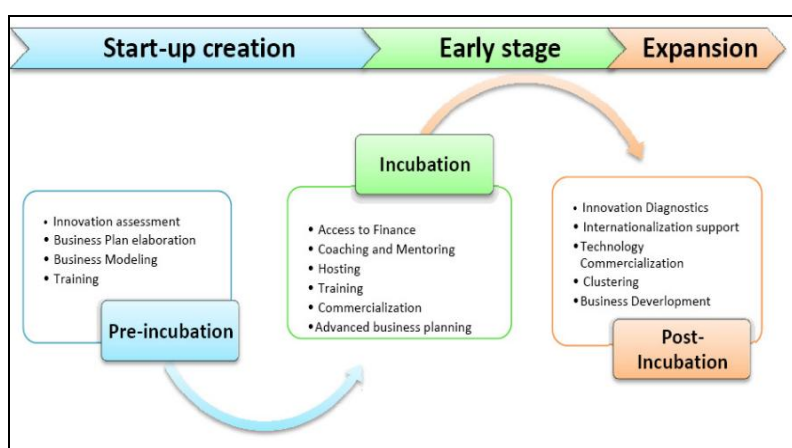
The business incubation process consists of supporting start-ups and entrepreneurs by providing resources, expertise and mentoring to facilitate the development and sustainable growth of businesses in a controlled and innovation-friendly environment. The main services offered by a business incubator (such as the provision of infrastructure and financing, coaching and mentoring services etc.) as well as the advantages felt by the incubated companies (low-cost or even free access to modern work infrastructure, assistance in initiating business, support and mentoring in accessing financing etc.) are suggestively represented in Figure 2.



Source: World Bank, *Business Incubation Definitions and Principles, Trainee Manual*. Available at: <https://documents1.worldbank.org/curated/pt/717091562157862660/pdf/BIM-Module-1-Business-Incubation-Definitions-and-Principles.pdf>

**Figure 2. Components of Business Incubation**

The StartUp Nations Standard emphasizes the need to increase the number of startups that can quickly transform into innovative SMEs and, subsequently, into large, competitive corporations on the global market (European Commission, 2021). To achieve this goal, startups need specialized support and services consistent with each stage of their life cycle. Thus, depending on the stage of development in which the incubated company is located, the services provided by these support structures are different (Figure 3).



Source: European Union, *The Smart Guide to Innovation-Based Incubators (IBI)*, February, 2010, page 6. Available at: <https://www.urenio.org/wp-content/uploads/2010/03/Smart-Guide-to-Innovation-Based-Incubators.pdf>

**Figure 3. The incubation process and specific resources**

The pre-incubation stage of a business is the initial stage of the development process of a business idea, where it is analyzed, tested and prepared to become a viable business. It is a period of exploration and planning, which involves clarifying the business idea, developing the business plan, identifying the initial resources. At this stage, ideas that are not feasible can be adjusted or abandoned, avoiding major losses.

The services that a business incubator can provide during the pre-incubation period of a business include:

- ♦ analysis of the feasibility of the business idea;
- ♦ providing of educational resources and training;
- ♦ conducting market research to identify the target market and customer needs;
- ♦ providing assistance in developing the business plan with emphasis on marketing strategy, financial projections and business model;
- ♦ facilitating access to mentoring and consulting networks;
- ♦ guidance in obtaining initial financing.

In the pre-incubation stage, the role of the business incubator is to reduce risks, speed up the business idea validation process and give entrepreneurs a solid start. This support is crucial to ensure the long-term success of startups, preparing them for the next stage, that of incubation itself.

The business incubation stage is the stage where the business idea validated in pre-incubation is developed, implemented and sustained to become a functional and sustainable business. At this stage, the business incubator provides a number of resources and services in order to grow and strengthen the business in the market, such as:

- ♦ providing the necessary infrastructure for operational development (workspace, equipment, software) and implementation of operational processes;
- ♦ facilitating access to financial resources;
- ♦ developing products and services by improving and adapting them to market requirements;
- ♦ developing the client portfolio by implementing an effective marketing strategy or facilitating access to relevant promotion platforms;
- ♦ developing the team's skills through training activities, attracting and retaining the talents necessary for business growth;
- ♦ monitoring the progress registered by the company through performance indicators;
- ♦ permanent provision of the necessary support through consultancy and mentoring.

The incubation stage is a key moment in the life of a business. Through the support provided, the incubator helps startups to overcome initial challenges, consolidate in the market and become sustainable in the long term. This creates a solid foundation for the future success of the business.

The post-incubation stage of the business represents the phase in which a business has successfully completed the incubation period and begins to operate independently without intensive support from the incubator. It is a stage of consolidation, expansion and maturation, where the startup takes full responsibility for its operations and development. At this stage the business incubator has more of an "accelerator" role and can especially provide internationalization services or the introduction of innovation through research activities.

Considering the three stages of development of a company with the support of a business incubator we can appreciate that "incubation is a continuous relationship between the incubator and the early-stage entrepreneur with graduation as the target and occurring when the early-stage company has reached sufficient maturity." (World Bank, Business Incubation Definitions and Principles, Trainee Manual). It was also emphasized that SMEs that benefited from support in such incubators would be much less exposed to the risk of failure in the first years of activity after their establishment (Curtea de Conturi, 2014).

#### 4. CONCLUSIONS

Entrepreneurship is a driving force in the transition to a sustainable, open and digital economy, and supporting this sector can create a favorable environment for developing innovative solutions, creating jobs and transforming the economy into a more resilient, inclusive and sustainable one. This transition is not only an opportunity, but also a necessity to meet the challenges of the 21st century.

In this context, business incubators are a catalyst for the success of startups and the development of the entrepreneurial ecosystem. They provide essential support for businesses in critical early stages, reduce risks and increase the chances of scaling and sustainability of emerging businesses, and if we consider that business incubators often collaborate with universities and research centers, developing solutions and advanced technologies we can conclude that they fully contribute to the development of a healthy business ecosystem, which stimulates competition, innovation and long-term economic growth.

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