BUSINESS INCUBATORS - SUPPORT STRUCTURES FOR ENTREPRENEURIAL INITIATIVES

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Dezvoltarea sectorului IMM-urilor, diversificarea activităţilor economice, crearea de valoare socială, inovarea, multiplicarea locurilor de muncă, amplificarea veniturilor, ridicarea nivelului de trai, susţinerea dezvoltării economice la nivel local şi regional sunt întotdeauna enumerate drept efecte ale manifestării iniţiativei antreprenoriale, iar îmbunătăţirea infrastructurilor de afaceri şi facilitarea accesului la credite pentru finanţarea investiţiilor drept principale modalităţi de susţinere a antreprenoriatului. Incubatoarele de afaceri – aflate în categoria structurilor-suport pentru iniţiativele antreprenoriale – sunt "vinovate", conform studiilor, de crearea celor mai multe locuri de muncă raportat la alte strategii de dezvoltare a afacerilor. Avantajul acestora constă în sprijinirea start-up-urilor prin acordarea de sprijin managerial şi servicii de asistenţă pentru întreprinzători cu scopul de a deprinde minimul de cunoştinţe şi abilităţi necesare pentru a le face să supravieţuiască şi să crească în primii ani de viaţă, atunci când afacerile se confruntă cu cel mai ridicat risc de eşec. Cu toate că România se înscrie pe linia ţărilor care susţin crearea şi funcţionarea structurilor-suport pentru dezvoltarea afacerilor sub forma incubatoarelor de afaceri, situaţia reală arată un număr prea mic de astfel de structuri funcţionale la nivel naţional şi cu rezultate apreciate drept modeste. Rezultatele dezamăgitoare pot fi explicate prin faptul că a fost acordată prea puţină atenţie funcţiilor de support ale incubatoarelor de afaceri atunci când acestea au fost create, sistemele de monitorizare ale incubatoarelor nu au furnizat informaţii adecvate şi, în final, preocupările vizavi de sustenabilitatea financiară a incubatoarelor a stânjenit activitatea de incubare a acestora.

Cuvinte cheie: *iniţiative antreprenoriale, IMM-uri, structuri de sprijin, incubatoare de afaceri.*

SME sector development, diversification of economic activities, creating social value, innovation, multiplication of jobs, raising incomes and living standards, supporting economic development on local and regional levels are always listed as effects of entrepreneurial initiative, while improving business infrastructure and facilitating access to credits in order to finance investments are considered the main ways to support entrepreneurship. Business-incubators - placed in the category of support structures for entrepreneurial initiatives - are 'guilty', according to studies, of creating most jobs in relation to other business development strategies. Their advantage lies in supporting start-up companies by providing managerial support and assistance for entrepreneurs in order to learn the minimum amount of necessary knowledge and skills that help them survive and grow during the first years of operation, when businesses face the highest risk of failure. Although Romania is one of the countries that support the setting up and operation of support structures for business development in the form of business incubators, the actual situation shows a small number of functional structures on national level and with results rated as modest. The disappointing results can be explained by the fact that too little attention had been paid to the effectiveness of incubators' business support functions when incubators were being established, incubation services were only loosely linked to clients' business objectives, monitoring systems within the incubators did not provide adequate management information and, finally, concerns about financial sustainability had hampered incubation activity.

Key words: *entrepreneurial initiatives, SME, support structures, business incubators.*

Entrepreneurship in Romania

Entrepreneurship is widely recognized as a generator of prosperity in society and a decisive element for economic growth and job creation. If on a private level, entrepreneurship means materializing a business idea into a profit-making economic activity, on public level, the entrepreneurial initiative arises from the need to identify solutions to the problems of a community or for achieving the targets set by communities at different levels.

An analysis of the entrepreneurial environment from Romania reveals a few features:

- in Romania the three most positive entrepreneurial framework conditions are physical infrastructure, internal market dynamics, and national policy-general policy, while the most negative conditions are primary and secondary education, national policy regulation and finance [2];
- the decisions of individuals to set up a firm are influenced by a complex of factors, among which one can notice: the perception of opportunities in the economic and social environment, awareness of the knowledge and skills required for starting a new business, the fact that one knows other people involved in entrepreneurial activities, assigns a high degree of status and shows respect to them, fear of failure, etc. [2];
- the Romanian intentioned entrepreneurs' profile indicates that the highest share of them is young, male with some secondary degree, situated in the upper 33% regarding household income [2];
- Early-stage entrepreneurial activity and established business ownership appears to be more oriented towards consumer-oriented services (these businesses tend to have relatively low resource needs and are often local in nature), followed by the transforming sector (manufacturing and construction), extractive sector and less towards business services sector (which tends to rely on highly educated human capital) (farming, forestry, fishing, and mining) [12]. As regards established business owner-managers, they operate almost equally in consumer-oriented services and in transforming sector. The first place is occupied by consumer oriented services sector, while the transforming sector is the less prevalent. [12];
- most of the early-stage and established entrepreneurs offer 0-5 jobs. In case of established entrepreneurs the share of

those who offer high number of jobs (20+) decreased slightly, while the early-stage entrepreneurs tend to be offer more jobs[12].

Regardless of the fact that it belongs to a public or private sector, entrepreneurial initiative changes the structure of the area in which it develops, through consumption of local resources, through generated revenue, through the impact it has on the intensity of the relationship among the other components of the economic and social system.

Awareness of this fact makes many of the world's Governments support and allocate resources for encouraging entrepreneurship in various forms: better rules, guarantees for loans, tax grants, credits for research and development or for stimulating startup. This also includes supporting the creation and functioning of modern support structures for entrepreneurial initiatives, such as: business incubators/accelerators and business centers/hubs, business/industrial and software parks, clusters/poles of excellence, design centers, local production centers, business consultancy services, etc. Another way of supporting entrepreneurship is the education system by introducing entrepreneurial education into school curricula on the level of secondary education and promoting programs such as 'simulating company' and "training company".

The contribution of business incubators to supporting entrepreneurship

From the beginning, business incubators have been created in order to support the development of private businesses at an early stage of activity. Being set up in a university environment and being supported from the university's own funds, business incubators were taken over by the public environment in order to support entrepreneurship as an alternative to absorb labour supply and to reduce unemployment on regional level.

If in the first definition the business incubator (business center) was considered a limited place housing start-up businesses and offering management support and assistance for entrepreneurs in order to learn the minimum amount of necessary knowledge and skills that help them survive and develop during the first years of operation, when they are most vulnerable, the dynamics of the development of modern society also imposed a reconsideration of the definition of the concept according to which physical aspects of the operations within an incubator (access to equipment such as telephone, fax, office or work space, utilities, etc.) come second, their place being taken by other facilities granted to the entrepreneurs concerned entrepreneurial training, mentoring and market visibility.

The early stages of a start-up business ('start-up' refers to companies that are operational for 2 year at most) are the most difficult. The process of managing growth, the development of new skills in areas such as accounting, business regulation and marketing represent considerable challenges for entrepreneurs, who may face a setback in the early years of operation. The most common cause of a start-up businesses failure is the lack of financial support, because typically small businesses have to operate on the market based on their own resources, without the benefit of financial support that helps them cope with the competitive pressures of the environment. Unfortunately, in addition to this cause there is a set of factors, among which the most popular ones are: the difficulty of forming partnerships with large enterprises, the lack of managerial experience, and the difficulty of obtaining financing because of the status of a new company.

The support of small businesses and of those newly established through business incubator or workspaces represents a major facility that encourages job creation and economic development. At the same time, it gives Governments and local authorities the chance to demonstrate the desire and their capacity to act for the purposes of supporting entrepreneurs. This type of support can bring real benefits to the local and national economy.

Within business incubators, incubated companies are hosted for a certain period of time (incubation cycle can vary between 1 and 3 years), during which they receive financial support (for purchasing start-up equipment, for participating in trainings, seminars, conferences, fairs, exhibitions and other promotional activities, for covering part of the utility costs, etc.), consultancy services (in implementing business strategies, in writing projects necessary to attract funding or in other relevant areas), transfer of know-how, providing support in the development of partnerships, as well as logistic support (office spaces, access to equipment, utilities). All these steps are designed to support the development of companies, so that they can reach a level of stability and autonomy that allows them to operate on their own after leaving the business incubator, with great chances to survive the competitive environment in the long run. The incubation period may be accompanied by a period of post-incubation (e.g. two years), in which firms continues to be monitored after leaving the incubator.

One can thus distinguish three steps within the activity of a business incubator [6]:

1. *pre-incubation*. This stage comprises activities aimed at supporting potential entrepreneurs in developing business ideas, business models and business plans. Typical services provided at this stage include a first assessment of the business idea and individual guidance on all aspects of preparing a business plan;
2. *incubation* - is represented by the period of time between the moment when the SME starts up and the moment when it becomes self-sustainable and prepared to operate independently on the free market. During this time, the incubator offers access to finance, training and coaching for entrepreneurs, as well as to networks of potential businesses and technology partners, office space and, in some cases, access to fully equipped laboratories, workshops and prototyping facilities;
3. *post-incubation*. This stage includes activities that are necessary when a company has reached operational and financial independence and it is able to continue its activity without external support. However, there are services that SMEs need in this stage, as well – for example, measures aimed at increasing its levels of sales, improving its productive processes using methods such as internationalization or introducing innovation.

Throughout these periods the business is vulnerable and subject to risks. Turning to the services of a technological and business incubator is a form of protecting business growth and maturity.

Considering the needs that must be met, the ways of addressing the problems of infrastructure, financing, policy and

legislation, knowledge, skills and organizational culture, business incubators may take a number of forms (types): technological business incubator (targeting SMEs with technological growth potential), academic business incubator (targeting SMEs with activities that apply or use research results developed within a university or Research Institute (spin-off) or develop the entrepreneurial initiative of the University with the objective of keeping the youth in the community and marketing technologies elaborated and developed by students or by the faculty), agro-business incubator (intended for agricultural companies), social business incubator (focuses on certain products and services that create social value), business incubator with a mixed portfolio (targeting SMEs with growth potential from a wide range of sectors), sector-specific incubators (intended for SMEs that have a feasible idea, applicable in a particular sector), virtual incubator (providing incubation services via the internet, in the form of business portals) and incubator for non-agricultural businesses in rural areas [21].

Through their work, business incubators are intended for the newly established SME sector or for companies that have an operating period of no more than 2 years, presenting a feasible business idea which shows potential and illustrating the possibilities of becoming an independent company after the completion of the incubation period.

General framework of operation of business incubators in Romania

The first business incubators were set up in Romania in the early 1990s, mainly with Phare /CRIMM (Romanian Foundation Center for SMEs) assistance, within the framework of PHARE/PAEM (Program of Measures to Combat Unemployment) [25], a trend perpetuated until now even though the European funds available for such a destination have received different names - today the FEDR (European Fund for Regional Development).

The main argument in favour of setting up and operating business incubators in Romania is bound, just like in other European countries, to the high rate of survival of firms that have received support from business incubators. The general 3-year survival rate of new companies is around 56 % (45% in the case of SMEs in Romania) [26], whereas the rate for companies which have been assisted by business incubators is around 80-90 % [27]. Despite the advantages of no neglect arising from setting up and operating a business incubator, mentioned in almost all documents related to strategies and programs for regional development, in our country it seems that the idea has not been put too much into practice if we consider the reduced number of business incubators for which funding was requested and obtained and if we take into account the economic-financial performance of their activity over time, appreciating that a series of incubators set up with international support have ceased to function by the time the funding ended, given the fact that the support from local authorities/Government/private sector was non-existent or insufficient to keep them operating until they could become self-sustainable.

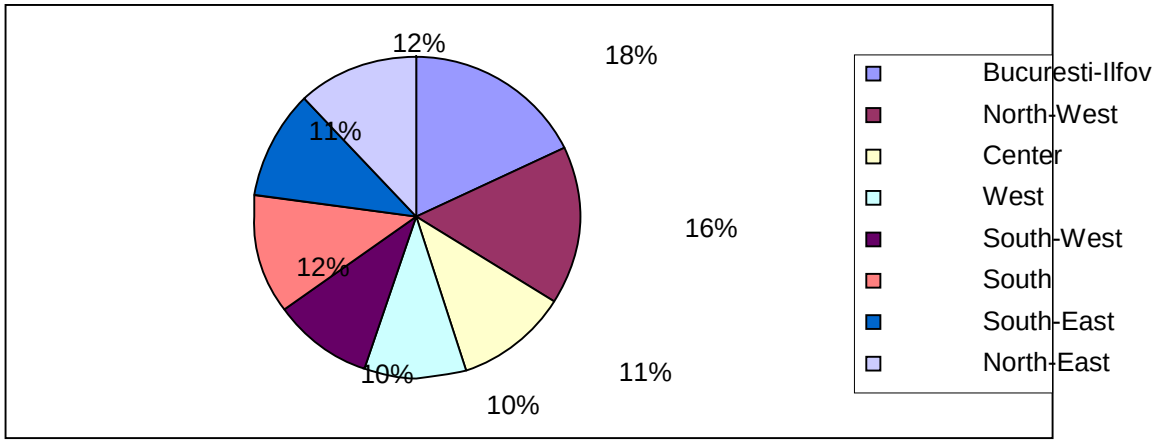


Figure 1. The share of incubators in regions of development in Romania (2012)

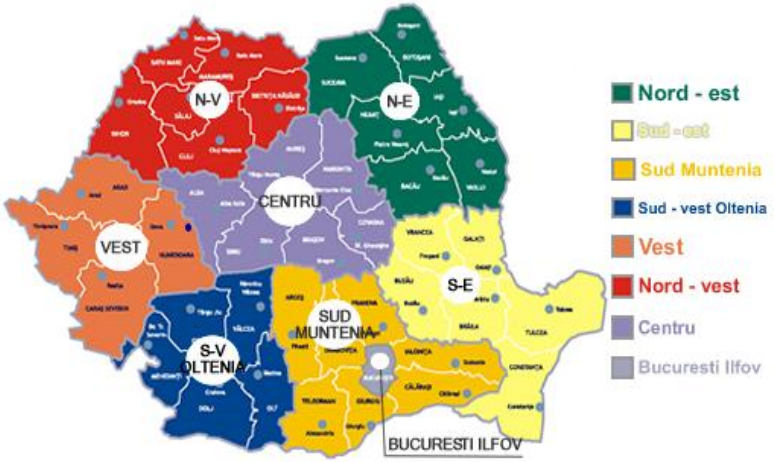


Figure 2. Regions of development in Romania

An analysis of business incubators from 8 regions of development reveals the following [7]:

✓ business incubators have mixed portfolio and they are financed from own sources and/or out of public funds;

✓ the 58 business incubators have hosted approximately 1,130 companies so far, most of them being from the South-West Oltenia region;

✓ the number of jobs created in all 8 regions of development within the country is about 3,000, most of them being in South-West Oltenia and in the Centre;

✓ Bucharest-Ilfov region is the most developed in terms of business incubators, while South-Muntenia region lies at the opposite pole with only 2 business incubators (Câmpulung Business Center and Giurgiu University Business Incubator);

✓ the main types of active incubators in Romania are innovation centers (CITAF, Bucharest), local development (FDSE, Zalau; INCAF Brăila), business centers (BIC, Baia Mare; Innovation and Incubation Center in Harghita County; Sibiu Business incubator). In addition to these, one may find Cluj Industrial Park, Timisoara Scientific and Technological Park, IT (ECO-NET, MDLB), NEST virtual incubator (Bucharest), and business incubators in Arad, Campulung Muscel or Târgu Jiu. Other 10 business centers are then added in Câmpulung, Baraolt, Rodna, Vărzari River, Teliuc, Padilla Motru, Moldova Nouă, Anina; they are set up under the two projects with funding from the World Bank: the Project regarding the closing down of mines and the mitigation of the social impact (Loan-4509, 1999-2007) and the Project related to mines closure, environment restoration and socio-economic regeneration (RO-4759, 2005-2010).

The development of small and medium-sized enterprises (SMEs) in Romania, by setting up new business incubators, as well as by developing existing business incubators is supported through a National Multiannual Program, and as regards the institutional framework from 2010, AICAR (Association of Business Centers and Incubators from Romania) intended to 'create a national network of incubators and business centers and to establish international relations'. Moreover, less than a month ago the Law was passed on business incubators whereby Florin Jianu, Delegate Minister for SMEs, estimates that "it will create in the period immediately following its adoption a minimum number of 84 business incubators, which lead to the starting up of at least 3,000 SMEs annually". [20]**.**

Conclusions

When speaking about business incubators, whether it regards European Union documents, or researches undertaken by specialists, a series of benefits associated with them can be highlighted: the creation of a favourable business environment for the development of micro-enterprises, of small and medium sized enterprises which leads to a multiplication/generation/reproduction of competitive economic activities, to the effect of replication of new SMEs, to the diversification of economic activities on local or regional level, to the consolidation of a dynamic private sector able to cope with competitive forces and international competition, contributing to the overall economic development and to an increase in employment due to the creation of jobs in those areas, to a decrease of the unemployment rate, to an increase of the population's income and thus, of the standard of living.

Incubators make available a number of facilities to incubated companies, thus creating a favorable environment for their development, as well as giving advice on business plans, marketing, business management information or the promotion of companies.

Business incubators have been created in order to support viable business ideas and to help entrepreneurs pass the critical stages in the life of any company and to help them develop on the market.

However, there can be identified a number of shortcomings that make the creation of business incubators a priority, since existing business incubators do not produce the expected effects:

- they have a low motivating effect and it seems likely that business incubators have only provided minor stimulus for individuals starting a business;
- advisory services and mentorship components, transfer of know-how, providing support in the development of partnerships is not sufficiently elaborated so that business incubators do not increase the likelihood of firm survival, innovativeness and growth;
- the relationship between start-up costs and operating costs of a business incubator and the 'income' generated for the local community, represented by value added and number of jobs, does not, in most cases, justify the spending of public funds for establishing and encouraging such support structures;
- the manifestation of the global crisis has seriously affected the sector of SMEs from Romania in the years 2008-2009, and even if there was a recovery, so far it has not reached the level recorded at the beginning of 2008, therefore it affects the activity of business incubators which target SMEs;
- the lack of experience of some business incubators which materialized in poor quality services granted to already existing clients, difficulties in finding new clients, etc.;

An analysis of all these shortcomings recorded in the process of creation and operation of business incubators from Romania is likely to suggest, in its turn, a series of proposals in order to eliminate these disadvantages in ways that improve the performance of business incubators:

- *there is a need for developing a best-practice incubation model* designed for spin-offs in high-tech and medium high-tech manufacturing and knowledge-intensive services;
- *the creation of a viable infrastructure for innovation and technology transfer*. In Romania a lot of research is carried out; however the connection between education, research and business environment remains weak and this is highlighted by the success of only a few ideas that can be transferred and placed on the market. Such collaboration generally exists between the institutions of research-development-innovation and big companies, but the participation of SMEs in the framework of such cooperation is limited. Such a structure means to develop and make efficient use of the innovative and technological - scientific potential in order to attract investments for the private environment regardless of its size, so as to

quantify the results obtained through the activity of universities and research institutes;

- *incubators should proactively seek and acquire new clients* focusing on those with innovative business ideas with high growth potential in order to maximize the efficiency of public funding;
- *incubators should offer their services to non-resident companies*, thereby allowing incubation support to have a larger impact on the local business community and improving possibilities for networking;
- they are set up/they function in areas which unfortunately do not attract clients suggesting that *Business incubators should be established on the basis of detailed and realistic business plans*, paying particular attention to the sustainability of their non-profit incubation activity;
- sometimes it seems that the *activity of business incubators* is not productive enough to generate economic development, therefore, in order to increase their performance it can *be combined with other external factors*;
- direct dialogue between government representatives, educational institution representatives and young entrepreneurs interested in innovative methods of non-formal education aiming at identifying new policies which contribute to the development of entrepreneurship among young people;
- Since the activity of business incubators is strictly linked to the manifestation of entrepreneurship, to effective mechanisms that support the creation and development of SMEs, it is necessary for public policies targeting the development of entrepreneurship in Romania to be approached, just like in the European Union, in the context of an ecosystem based on: entrepreneurial education on all levels, the simplified and predictable regulatory framework, easy access to financing oriented towards competitiveness.

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