

Towards Small Business Development through Business Incubation Programmes: A Review

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Abstract

The number of new indigenous business start-ups in Botswana has significantly increased during the past two decades. Unfortunately, the majority of them are not successful. Over 70 % of new start-ups fail during their first 18 months. The general failure rate is over 80 %, and only less than 2 % of small businesses expand their businesses. It is noteworthy that this increased failure rate is substantially greater than the increase in the rate of new business creations. It is therefore essential to study the conditions that account for such a substantial rate of business failure and develop appropriate strategies to overcome the problems. The increasing rate of business failure has seen the emergence of several public policy approaches and assistance programs that attempt to improve the success rate of new businesses. One of the most intriguing of these is the Business Incubation Programmes (BIPs). This business incubation programme is an organised effort to bring together new and emerging businesses in a controlled environment to facilitate the development conditions and support systems that will ensure successful business operations. BIP is an economic development tool designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services. The purpose of this paper is to analyse why BIPs are critical for the development of small business and entrepreneurship and to put forward some suggestions on how BIPs can effectively be used for a proactive and sustainable entrepreneurial development.

Introduction

Although the discovery of mineral wealth (diamond) has propelled Botswana into the middle-income category group, the country still faces the problems of (1) economic diversification, (2) employment creation, (3) income generation, distribution and poverty alleviation (Government Paper 1998). First, since the economy of Botswana is highly dependent on the mining and beef sectors for its income and on foreign markets for the import of basic goods and services, there is a strong need for economic diversification through the development of small businesses and entrepreneurship. Second, the most common argument in favour of small firms is that they create substantial job opportunities as they use relatively

labour-intensive technologies. Since they employ more people per unit of investment as compared to large firms, a given amount of money will create more jobs if it is spread over a large number of small firms than if it is focused on few large companies (Abdullah and Baker 2000).

Third, small firms promote the culture of saving and investing in society. The money invested in small firms would probably have been allocated to consumption expenditure if small businesses have not been established. This nature of propensity to save and invest, induced by the development of small firms, can directly contribute to the overall savings ratio of the population (Abdullah and Baker 2000).

The development of small firms would also help spread income to more people because large firms normally tend to produce an elite number of high wage income earners whereas small firms produce a significantly large number of relatively low-income earners. Enhancing the sustainable development and poverty alleviation potential of small firms will eventually reduce dependency on foreign markets. This will not only save foreign exchange but also reduce the impact which fluctuations of foreign exchange receipts will have domestically.

Small Business Assistance Schemes

Botswana's experience in promoting small firms toward these ends is almost as old as the country itself as an independent state. Since the creation of the Botswana Entrepreneurs Development Unit (BEDU) in 1974, the government has been investing many resources to promote small business development. This includes the establishment of Financial Assistance Policy (FAP); which was an outright grant scheme; Local Procurement Preference Scheme (LPPS); Factory Shell Programmes (industrial estates for construction, metalwork, woodwork; and garment); Citizen Contractors Fund; Micro Credit Scheme; Credit Guarantee Fund; Botswana Development Corporation (BDC); Enterprise Botswana (EB); Tswelelo; National Development Bank (NDB); Small, Medium and Micro Enterprises (SMME) policy; Citizen Entrepreneurial Development Agency (CEDA) and others. Most of these assistance schemes have placed greater emphasis on financing than providing a comprehensive assistance package.

Moreover, the schemes and policies are not well integrated with private and non-governmental assistance programmes such as Small Enterprise

Promotional Trust (SEPOROT); Botswana Confederation of Commerce Industry and Manpower (BOCCIM); Women Finance House (WFH); commercial banks and other financial and non-financial institutions (Government Paper 1997).

Despite all these efforts, the rate of small business development and indigenous entrepreneurship is very slow. Although this could be attributed to several problems, lack of integrated assistance schemes is the major problem. Introduction of comprehensive assistance programmes might address the financial, organisational, managerial, cultural, operational, environmental, and strategic problems of small firms.

Policy Interventions

The purpose of this paper is to analyse the importance of nurturing entrepreneurship through Business Incubation Programmes (BIPs) as opposed to the traditional fragmented form of business assistance programmes (example, FAP or CEDA in Botswana).

Many studies emphasise the need to participate in both public and private sectors in the promotional campaign for small business development. Governments play an important role in the promotion of small firms. However, the determination of the extent of government intervention has long been debatable. As shown in Figure 1 below, government's influence is envisaged as a continuum from neutral to strategic intervention (Peterson 1988).

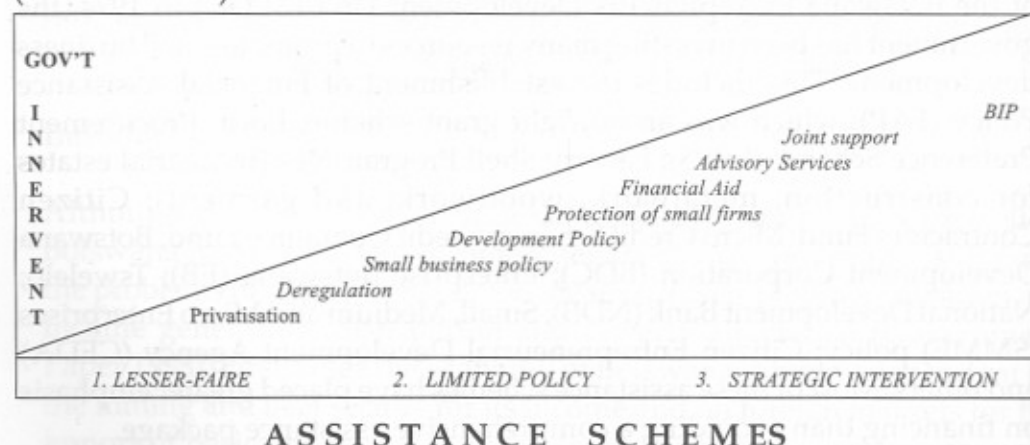


Figure 1. Continuum of Policy Approaches to Government Intervention in the Business Environment (adopted from Peterson

1988).

At one extreme is the lesser-faire approach, which views government activity as an impediment to spontaneous private entrepreneurial activity by individuals and firms. Policy implementation is normally envisaged as a withdrawal of government from the economic sphere. Deregulation and privatisation of public enterprises, for example, have resulted in the development of many small firms. According to this policy approach, no assistance schemes are developed and provided by the government.

The middle of the continuum is the limited policy approach, which presents the role of government as active stewardship of the economy, in creating the right climate for small business development through policy instruments and controlling some factors such as price, wage, inflation, interest rates and taxation. Government focuses on protecting small firms and eliminating discrimination against them. Government also incorporates small business development issues in the National Policy on Human Resource and Industrial Development, as well as policy on Education and Training (Peterson 1988). The role of government is limited to the development and review of policies that promote small businesses.

At the other extreme, is the strategic interventionist approach, which considers government not only as provider of policy instruments but also as provider of direct aid to small businesses in the form of financial aid packages, counselling programmes, training and education, as well as business advocacy programs. The physical manifestation of these assistance programmes takes a variety of forms. One form is that of business advisory services provided by various government agencies to small firms. Since these services mostly cover specialised legal or regulatory advice and are usually located in major cities and towns, they are very limited in scope. Another form of assistance is the provision of financial assistance to small firms. Government agencies work closely with banks and financial institutions to provide small firms with loans and other credit facilities.

Another increasingly popular form, which is the subject of this paper, is the Business Incubation Program [BIP], which integrates public and private resources to provide a comprehensive range of services to new and emerging small businesses. These services include rent subsidies, advisory and administrative services, on-going consulting, marketing, R&D

support, new technologies, subsidised labour, training, and in deed as many other services as considered necessary to ensure successful small business among the client groups.

Scope of Business Incubation Programme

Small firms have numerous and complex problems particularly during their first few years. They need a comprehensive assistance and an organised effort to facilitate the development of conditions and support systems that will ensure successful business operations (Lumpkin and Ireland 1988). As shown in Figure 1, BIP is the highest form of strategic intervention by governments. It is considered one of the best strategies to increase the success rate of new firms and reduce business failure. BIP is particularly advantageous in assisting the development of small firms in small towns, disadvantaged and rural communities (NBIA 1996). Moreover, BIPs assesses the internal and external environment of a particular industry or market to determine its needs and problems before starting incubation. Business incubators match their services to the needs of local entrepreneurs after evaluating their community's business needs through feasibility studies. The feasibility study helps incubators to determine the optimal size, location and scope of the incubation program in order to maximise the potential of entrepreneurial talent within a community.

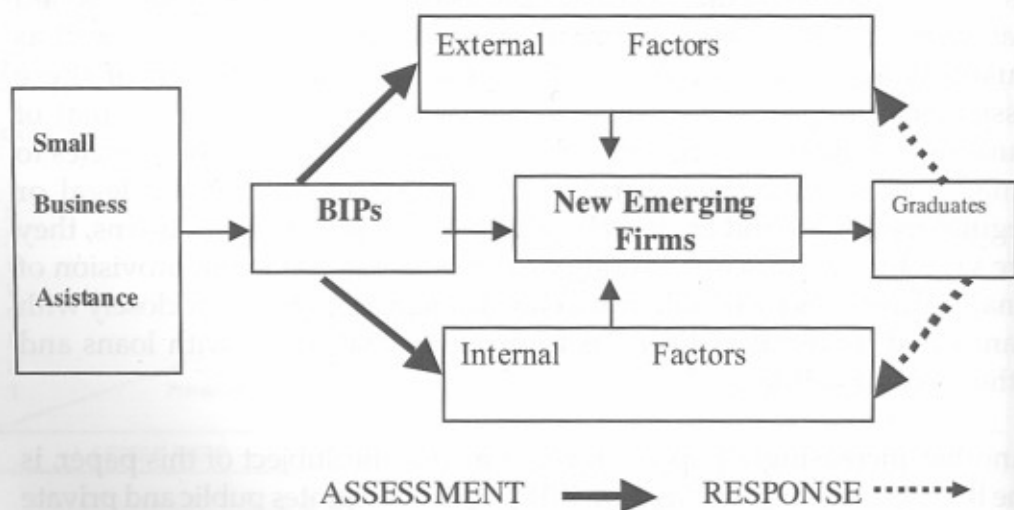


Figure 2. Entrepreneurship through BIPs

Different types of private and public assistance (financial, educational, technical, etc) can be integrated and systematically channeled to BIPs which assess internal and external business environment to provide appropriate support and nurture new and emerging small firms until they successfully graduate from the incubation programme. As shown in Figure 2, the main goal of BIPs is to produce successful graduates-businesses that are financially viable and freestanding when they leave the incubator, usually in two or three years. In its study, the National Business Incubators Association (1996) found that BIPs have been exceptionally successful in the USA, with over 30% of incubator clients typically graduating each year and 87% of them remaining in business.

Small Business Problems and the Need for BIPs

The gap between new business creations and failures is increasing at an alarming rate and requires a strong partnership between public policy approaches and private undertakings. The most commonly cited cause of business failure is "poor management". Although it is not easy to understand what constitutes "poor management", the majority of small business problems, whether related to marketing, finance, operation, personnel or distribution; are essentially management problems.

Argenti (1976) argues that no matter what disaster befalls a firm at the market place, with sufficient managerial training, experience and foresight, it could still have been avoided. Whatever the cause of failure, it could have been successfully solved and controlled if there was managerial adequacy and competency in the organisation. Though it is beyond the scope of this paper to identify what constitutes "poor management", small business problems can be divided into financial, marketing, internal and external problems. Analysis of these common problems will shed some light on the need for BIPs.

Finance

Even though there are many financial institutions to extend credit facilities, it is observed that small firms are still generally short of credit. Many smaller enterprises seldom approach financial institutions when they are short of funds because they are not confident of obtaining bank loans and credits. In addition, their limited experience with bank officials has done little to change their perceptions of the difficulties and bureaucracies in

obtaining credits. Commercial banks also, are usually reluctant to provide credit facilities to smaller firms because lending to them is less profitable as compared to larger firms. Lending to small firms also involve high credit administration costs and greater risks. This is especially true when many small firms are typically deficient in equity and acceptable collateral.

Marketing

Today, it is widely accepted that small businesses are not just "little big" businesses. However, it is also acknowledged that small businesses have their own peculiar characteristics, which affect their perception of the marketing concept. Marketing activity is founded largely on traditional practices and experiences. Any attempt at formulating a marketing plan using a recognised marketing concept, seems to be non-existent in newly established firms. Small business marketing is entirely dependent on the depth of experience and knowledge of owners/managers. Often, marketing planning activities are limited to planning for "selling" within a narrow industry perspective (Weinrauch and Mann 1991).

Information about markets and customers is crucial for managerial decisions. However, many small firms do not keep customer records, make follow up on their customers and study customers' characteristics and preferences. Lack of knowledge of low-cost marketing strategies is also preventing small firms from conducting formal beneficial marketing and selling sessions. The apparent resource constraints in small firms have made it difficult for them to develop new markets, to extend credits to customers and to service warranties and guarantees.

Thus, business incubators should probably play important marketing roles for tenant firms and reduce the negative consequences of marketing problems.

Internal Problems

The future of small firms depends on the development and maintenance of human resources. As Drucker (1984) notes, they require "a few highly competent people, dedicated to the task, driven by it, working full time and very hard". For many firms, the attraction, development and maintenance of successful individuals are critical success factors. Recruiting new employees is one of the biggest challenges facing small firms, and a key component of organisational success. Small firms tend to

rely on social networks to attract workers, particularly at the inception stage.

Owners/managers of small businesses are usually close to the operating personnel and the activities undertaken. This provides the owners/managers with extraordinary opportunities to influence these operations and activities directly. However, their relationship is often informal and with no precise definition of rights and obligations. Appointments and promotions are conducted not on the basis of ability, education, experience, and/or technical qualifications.

The organisational structure is likely to develop around the interests, preferences, and abilities of owners/managers. Small firms usually do not have many employees in each specialty and this leaves the business vulnerable. As owners/managers do not often take the time to develop their subordinates and assistants, the business suffers when a key employee leaves or dies. Even though development of employees is costly for small firms, the cost is often outweighed by the benefits (Smallbone 1990).

External Problems

The business environment is defined as the relevant physical and social factors outside the boundary of an organisation that are taken into consideration during organisational decision making. Several studies on environmental scanning (Elenkov 1997 and Sawyer 1993) conceptualise the environment as having several factors that affect, directly or indirectly, the performance of small firms. These factors include such environmental elements as competitors, suppliers, customers, technological, economic, political, demographic, cultural, regulatory and social factors. It is particularly difficult for start up firms to evaluate and understand these environmental factors without external assistance.

Environmental scanning is the means through which managers perceive external factors, events and trends. Scanning represents a difficult organisational problem because the environment is vast, complex, and changing. Establishing strong collaboration with customers and suppliers is vital to achieving competitive advantages. Although it is beyond the control of small firms to influence such external factors as economic trends, direction of competition, purchasing power of buyers, technology,

inflation, market size, culture, trade union and labour legislation, they must be assisted to proactively respond to changes in their operating environment. The major importance of business incubation is networking tenant firms with the various sectors in the business environment.

Conclusions and Suggestions

The review of small business assistance schemes in this paper, policy approaches, and problems indicated a strong theoretical relationship between small business success and the need to integrate the various assistance programmes in the economy in the form of Business Incubation Programmes. Some lessons can be learnt from existing BIPs around the globe. There is a general consensus in the theoretical relationship between BIPs and success of start up firms. However, this does not mean that all BIPs are problem free. To increase the survival rate of start up firms, the National Business Incubators Association of USA suggests some best practices and actions in the development and management of BIPs (NBIA 1996).

Development of Business Incubation Programmes

Although BIPs are usually initiated and developed by Governments, the development of a BIP working group should consist of people with different academic and professional background from the various sectors of the local economy such as community leaders, city officials, government agencies, colleges/universities, technical-vocational schools, private companies, chamber of commerce, bankers, real estate agents, development corporations, accounting and law firms in order to cater for BIP development related factors.

Support Capacity Assessment

It is important to identify the various sources of small business assistance because BIPs essentially complement and draw upon other small business support programmes. Today, the trend seems to be geared towards creating a strong partnership between the private and public sectors. This helps to determine if local businesses and public officials endorse the concept. Local and national support agencies [e.g., CEDA, SEPROT, BOCCIM, BDC, Bank of Botswana, WFH, Small Business Council] should be approached to evaluate the support capacity and resources available in the economy. Other sources

of support such as schools, colleges, training institutions and bankers, should be contacted to identify potential support, finance and otherwise. This assessment may show what support is available in the network and what is not.

Local Economic Activity Assessment

The entrepreneurial climate in Botswana might need to be thoroughly studied before decisions are made to establish BIPs since the most successful BIPs match their services to the needs of the local entrepreneurs. A feasibility study may also be necessary to identify potential BIP clients and the businesses they operate; determine the optimal size, location and scope of the existing BIPs; identify the growing sectors of the economy; the average number of start-ups and failures; the ratio of births to deaths in the economy; the number of licenses issued; types and origins of customers, sources of financing and capitalisation used; obstacles faced in obtaining financing; availability of local suppliers, amount of sub-contracting or spin off industry activity in the local area; problems in obtaining quality labour as well as perceptions of city officials and other important bodies in the community. This would provide basic information necessary for the development of BIPs.

Local Facility Assessment

The demand and supply for rental of commercial and manufacturing space in the local area should be analysed to see if existing space is adequate for entrepreneurs or if there is unfilled demand. Real estate agents can be contacted to provide information on the level of demand for office, commercial, manufacturing and service space; the level of supply for the same types of space; market rates for each types of space; typical lease agreement for each type of space; and services included in rental rates.

The key in investigating potential sites and buildings is to acquire facilities as inexpensively as possible in order to pass the savings to tenants in the form of cheap rental rates. The selected building must have the flexibility to adapt to adjustable space partitions and loading docks. Consider soliciting donations from public entities for vacant buildings such as schools, old military camps, vacated warehouses, post offices, university buildings, etc. Private corporations may lease or donate unutilised manufacturing space for a specified time.

Source of Financing Assessment

After estimating costs for acquisition and renovation for the potential sites chosen, sources of financing may be determined. The following may be considered as potential sources of income: fund-raising activities, government agencies, donations, fees and rental charges, private/public partnership, local government funds, donations and loans from local corporations, NGOs, and chamber of commerce. Not only may financing for the facilities be of major importance, but financial sources for tenants should also be identified. Tenants need affordable financing for equipment and working capital. BIP may act as brokers between new businesses and investors, often by introducing lenders and venture capitalists to tenants. Sometimes this process entails formulating proposals and packaging loans. It is a good practice to establish a revolving loan fund for BIP tenants.

Preparation of Operational Plans

There may be a need to design an overall operational policy that incorporates the details of the previous assessment results. A flexible lease agreement that allows offering larger firms longer leases and short leases to small firms that may facilitate internal expansion within the facility. Tenant screening and selection policies may also be established. Tenants may be required to present a written business plan that shows the viability of their intended business.

Moreover, establishment of graduation policies in terms of number of years spent in BIPs or in terms of ability and competency to operate and compete independently may encourage the businesses. Furthermore, basic staff needs may be identified and appointment of maintenance and clerical officer and a director, who is capable of organising and mobilising a variety of resources for the incubation programmes might need consideration. Generally, the directors should possess effective communication skills, working knowledge of accounting and marketing, and proven management expertise for a sound management.

BIP Marketing

Business incubation programmes need to be marketed adequately. The general media can be regularly alerted of any developments throughout

the BIP projects. Brochures and other printed materials may be developed to respond to requests and mail outs. Information through newspapers and pamphlets may be sent out to prospective tenants, college staff, vocational-technical centres, support agencies and bankers. It is also advisable to promote the incubator through speeches with civic clubs, and to stage a grand opening and invite public officials, private businesses, the media and others. It may also be advantageous to hold seminars for both tenants and other business people in the community to promote the BIPs locally, nationally and regionally.

Continuous Evaluation

BIPs may need to be evaluated continuously to see whether they are achieving the intended goals or not. Despite its many advantages, BIPs are not a panacea for the economic ills of every community. Therefore, a careful assessment may be necessary to determine the correct application.

Management of Business Incubation Programme

The other problems uncovered are related to the management of individual incubators. An incubator is as good as the resources it offers. The working group in the development of BIPs identifies potential business incubators who can serve as models of successful business operations in the area. Moreover, incubators understand and know the community in which the incubation programme is carried out and client companies are selected.

It is believed that management of the best incubator should consist of people with adequate experience, training and motivation, and provide such services as business plan review and preparation, technical advice, product design and production, marketing and sales support. Moreover, incubators are expected to assist small businesses to access the services of professional accountants, lawyers, and management consultants at reduced costs. To successfully accomplish all these duties and responsibilities, BIPs management may need to achieve the following:

BIPs Mission and Goals

Business incubators and BIP developers need a consensus on a mission that defines the role of the incubator in the community and to develop a strategic plan containing quantifiable objectives that can help realise the

mission as realistic goals are crucial to business incubators. As the development of a successful BIP or a thriving business takes time, it is important to promote BIPs through community leaders and entrepreneurs during the planning stage. The goal of BIP is an ongoing support of community and business leaders and the long-term success of local entrepreneurs. The aim would be to have a positive impact on the community's economic health by maximising the success of start up and emerging firms.

Formal Business and Financial Plan

New business incubators need a solid financial plan as their creation can be an expensive endeavour. When conducting a feasibility study before launching the incubator, the BIP might have to put together funds from a variety of sources to increase the chances of long-term success. A well-developed financial plan that identifies how the BIPs intend to fund the project goes a long way in attracting investors and supporters.

Screening Tenants

Incubators may select tenants with a potential to grow and create jobs. Screening practices and abilities of incubators play an important role in the development of enterprises. The key to an incubator's success is the skill with which it screens prospective tenants. Not everyone who applies should be automatically accepted for incubation as some may not qualify. In this regard, incubators are like venture capitalists because they look for people with good ideas and commitment to making their companies a success.

However, unlike venture capitalists, incubators do not have a financial stake in their clients' business. The biggest mistake that incubators can make is to lease space and provide other services to tenants who do not exhibit the qualities necessary to develop sustainable and profitable businesses. An incubator uses a structured programme that produces focus on the "what's next" and "what's missing" aspect of marketing, operations, finance, administrative components of the business, then provides the "what's missing" to take the business to the next level of development.

Continuous Evaluation

Business incubators engage in continuous evaluation and improvement as the programme progresses and needs of clients change over time. Business incubators maintain a management information system and collect statistics and other information necessary for ongoing programme evaluation, thus improving the BIP's effectiveness and allowing it to evolve with the needs of the clients. Continued coordination of the assistances provided to start ups and a follow up on the performance of client firms are critical issues in the incubation process. Botswana may have to reflect back and learn from its past mistakes in the administration of the Financial Assistance Policy (FAP) which was found to be a failure after two decades and replaced by CEDA in 2001. Evaluations are made for the purposes of corrective actions. FAP was evaluated only four times during its nineteen years of existence and very little efforts were made to overcome its basic shortcomings.

To sum up, integration of small business assistance programmes with BIPs as the provider of meaningful and comprehensive assistance that can significantly contribute to the development of entrepreneurial culture and activities rather than increasing just the number of start up firms (through only financing) who leave the market before understanding its dynamics may address the problems discussed in this paper. Finally, future research may also look empirically into whether small firms operating under BIPs achieve greater success than independent firms as measured by survival rates, turnover and employment.

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