

Supporting SME start-up in Slovakia by means of business incubators

Lubica Lesáková

Matej Bel University, Faculty of Economics
975 90 Banská Bystrica, Tajovského 10, Slovak Republik
E-mail: lubica.lesakova@umb.sk

Abstract: Business incubators began in the 1960s and really took off in the late 1990s as support for start up companies who need advice and venture capital to get their ideas off the ground. The role of business incubators is to accelerate the successful development of entrepreneurial companies through an array of business support resources and services, developed and managed by incubator management and offered both in the incubator and through its network of contacts. The main aim of the article is to present the role of incubators as a mean of supporting small and medium enterprises start-up in Slovakia. The article is divided into two parts. In the first part is presented the core of incubators, incubator types and goals. In the second part we present building of business incubators in Slovakia and their role as a mean to help to start the entrepreneurship as well as to help to support technologically oriented SME in Slovakia. The paper was elaborated as a part of VEGA project I/0654/11 “Innovative small and medium enterprises as a part of knowledge based economy in Slovakia”.

Key words: incubator, small and medium enterprises, start-up, types of incubators, business incubator, technological incubator, virtual incubator.

1 Introduction

Business incubators are programmes designed to accelerate the successful development of entrepreneurial companies through an array of business support resources and services, developed and managed by incubator management and offered both in the incubator and through its network of contacts [10].

The main goal of a business incubator is to encourage the development of new business within the local community. By assisting a local entrepreneur to start a company in the area, the community is likely to benefit from an increase in the number of available jobs in the area, and the additional revenue that is brought to the city or town as a result of the new business activities. Both elements can help

to revitalize a local economy and thus enhance the quality of life for everyone who lives and works in the area. The main aim of the article is to present the role of incubators as a mean supporting small and medium enterprises start-up in Slovakia. The paper was elaborated as a part of VEGA project 1/0654/11 "Innovative small and medium enterprises as a part of knowledge based economy in Slovakia".

2 The role of business incubators

The business incubator helps to fill a void that is found in many areas. Not everyone is able to spend the time or money necessary to attend college and obtain a business administration degree. Further, not everyone has access to resources that can fund a new business effort until it becomes profitable. Incubator programs help to fill the gap by providing rudimentary training to entrepreneurs, a space to launch the business, and in some cases connect the new business owner with others who are in a position to invest in the future of the company [2].

The incubator cannot replace business initiative, personal effort and resourcefulness. There is a term used called "incubator syndrome" in which the entrepreneur allows their initiative and judgement to be replaced by those of the consultants in the center. While the consultants may give superb advice, it is the entrepreneur's responsibility to make the business succeed.

Incubators vary in the way they deliver their services, in their organizational structure, and in the types of clients they serve. Classical incubators are business incubators oriented on giving support in starting the business through advice, lease of space, offering the administrative infrastructure and other services. They may also have good connections to sources of funding, but are seldom themselves business investors. Technological incubators support technologically oriented firms mostly as start-up and spin-off firms. They cooperate close with universities, research institutions and science and technological parks [9]. Many of incubation programs serve affiliate or virtual clients. These companies do not reside in the incubator facility. Affiliate clients may be home-based businesses or early-stage companies that have their own premises but can benefit from incubator services. Virtual clients may be too remote from an incubation facility to participate on site, and so receive counselling and other assistance electronically. This virtual model suits those entrepreneurs who need the advice offering by an incubator, but still want to maintain their own offices, warehouses, etc. [1].

Incubators differ from science and technology parks in their dedication to start-up and early-stage companies. Science and technology parks, on the other hand, tend to be large-scale projects that house everything from corporate, government or

university labs to very small companies (both of them – science as well as technology parks – tend to be for established companies paying commercial rates). Most science and technology parks do not offer business assistance services, which is the core of a business incubation program. However, many science and technology parks house incubation programs [3].

Most common incubator services are: help with business basics, networking activities, marketing assistance, help with accounting and financial management, access to bank loans, loan funds and guarantee programs, access to angel investors or venture capital, help with presentation skills, links to higher education resources, links to strategic partners, help with comprehensive business training programs, advisory boards and mentors and technology commercialization assistance. Although most incubators offer their clients office space and shared administrative services, the heart of a true business incubation program are the services it provides to start-up companies.

Unlike many business assistance programs, business incubators do not serve any all companies. Entrepreneurs who wish to enter a business incubation program must apply for admission. Each community sets criteria that applicants must meet in order to participate in the business incubator. Acceptance criteria vary from program to program, but in general only those with feasible business ideas and a workable business plan are admitted [12].

The amount of time a company spends in an incubation program can vary widely depending on a number of factors, including the type of business and the entrepreneur's level of business expertise. Firms with long research and development cycles require more time in an incubation program than manufacturing or service companies that can immediately produce and bring a product or service to market. Most businesses that use an incubator will stay there for up to a year, but by then should have grown sufficiently to move into their own facilities. Many incubation programs set graduation requirements by development benchmarks, such as company revenues or staffing levels, rather than time in the program.

Incubators do charge for the facilities and resources that they supply, but since nearly all are supported in some manner by government or regional grants, the charges are subsidised and lower than in the market place [6]. Because many of incubators are regionally funded, or because a young company would require such a facility to be local to them, they are mostly identified by region.

The types of companies that find business incubators most helpful tend to be high-tech, or knowledge based businesses. The main industry sectors intentionally supported by incubation programmes in Europe are given in the Table 1.

Industry sectors/Business activities	%-tage
Biotechnology, pharmaceutical sector	14,2
Hi-tech sector	18,6
IT sector	18,2
Combination of more activities	9,5
Business and financial services	0,6
Retail, marketing and distribution	0,4
Services/Professional	8,8
Knowledge oriented services	11,5
Creative industries	6,1
Research and development	12,2

Table 1

Main industry sectors supported by incubation programmes in Europe

Source: State of the Business Incubation Industry, 2006

About one-third of business incubation programs in Europe are sponsored by economic development organization. Government entities (such as cities or counties) account for 21 % of program sponsors. Another 20 % are sponsored by academic institutions, universities and colleges. In many countries, incubation programs are funded by regional or national governments as part of an overall economic development strategy [14].

3 Supporting SME start-up by means of incubators in Slovakia

Building of incubators network in Slovakia started in 2002. By 2009, 16 incubators were established in various regions of Slovakia with the state budget support, pre-accession Phare Programmes, and structural funds. Apart from the above, 1 training (virtual) incubator was established in Rimavska Sobota [7].

In 2009, the Programme „Support of SME via the network of incubators and implementation of the research-based spin-off method“ supported 5 incubators in the total amount of 53 598 Euro from the state budget [13]. The incubators covered with the provided financial contributions a part of operational costs and loss incurred due to provision of lease for the prices lower than commercial market prices and due to provision of additional services for lessees.

Incubator	City	Contribution in EURO
Business incubator	Handlová	13 355,27
Incubator	Moldava nad Bodvou	9 604,43
Technological incubator (TI)	Prievidza	6 523,21
TI INOVATECH	Sládkovičovo	16 293,30
TI in Science and Technological Park	Žilina	7 821,83
Total sum from state budget		53 598,04

Table 2

Overview of funds expended for support of operation of incubators in 2009 from the state budget

Source: <http://www.nadsme.sk>

Business incubator in Handlová reached occupancy of 76 % as of 31 December 2009, of which occupancy rate of incubated companies was 87 %. In comparison with the previous period the number of incubated companies was reduced from 13 to 12 (combination of various activities) employing 42 employees. Activities/services of the incubator are oriented on IT courses, counselling for starting entrepreneurs, e.g. related to income tax returns or annual financial statements, consultations related to request for micro-loans and creation of business plans. At the same time, the incubator leased the premises and technology to incubated companies, provided clerical service and promoted the services offered by the incubator.

Incubator in Moldava nad Bodvou reached occupancy rate of 55 % as of 31 December 2009, of which occupancy rate by incubated companies was 100 %. The number of incubated companies was 11 (retail, distribution, services). Activities/services of the incubator are: lease of premises, promotion of the incubator activities, working on projects.

Technological incubator in Prievidza reached occupancy rate of 72 % as of 31 December, 2009, of which occupancy rate by incubated companies was 85 %. Within the monitored period the number of incubated companies was reduced to 22 (mostly small technological firms) and the number of jobs was reduced to 98. Activities/services of the incubator are oriented on implementation of trainings, providing of counselling for starting companies and the companies in long-term care, counselling related to provision of micro-loans, various project activities and lease of premises and technology.

Technological incubator INOVATECH Sládkovičovo reached an occupancy rate of 57 % as of 31 December 2009 (of which occupancy rate by incubated companies was 58 %), placed 10 incubated companies with 66 jobs. Activities/services of the

incubator are lease of premises, lecture halls with equipment, and conference room, providing the access to PC rooms, counselling and cooperation in creation of business plans and in the process of acquisition of the funds, administration services for incubated companies, promotion of the services provided by the incubator. The incubator became a network partner of the „Microsoft’s BizPark“ Programme, which is designed for „start-up firms“ [5]. Several meetings, seminars and presentations related to entrepreneurship took place in this incubator. The incubator started cooperation with the Academy of Education in Galanta, a potential partner for education and counselling.

Technological incubator in Science and Technological Park in Žilina reached an occupancy rate of 89 % in the monitored period, of which occupancy rate of incubated companies was 84 %. In comparison with the previous period, the number of incubated companies lowered to 34 and the number of jobs in incubated companies is 149. Activities/services of the incubator are lease of premises and providing administration services, counselling, enlightenment in the field of SME, creation of the project for construction of new incubator building, a member of the first IT cluster in the Slovak Republik - Z@ICT, a member of cluster in automobile industry TPI-TEC, presentation of companies in the incubator, creation of design of technological transfer model at Technical University in Žilina to prepare the conditions for effective commercialisation of research and development results, organisation of events for students, for example a campaign „Do you have an idea?“ with the aim to address new clients.

The number of incubated enterprises is a significant factor of fulfilment of goals of the incubators as well as of the national programme. As of 31 December 2009 the 5 mentioned incubators placed in the operational premises together 89 starting enterprises, which created 449 jobs. The average total occupancy rate in five incubators, to which a contribution was provided in 2009, was 69 %, of which average occupancy rate by incubated companies was 81 %.

As to the total, by 31 December 2009, 214 incubated companies, which created together 3288 jobs, were placed in 16 business and technological incubators in Slovakia. Another 64 jobs were created in management and administration of incubators. Average total occupancy rate in incubators was 79 %, providing the interest of starting entrepreneurs in incubator services and importance of investments for their establishment and operation [11].

Incubator	Total area for lease in m ²	Occupancy Rate in m ²	Occupancy rate in %	Number of incubated companies	Number of jobs	Number of jobs in management and administration
Business Incubator and Technological Centre B.Bystrica	1 066	866	81 %	14	83	4
Incubator Bratislava	197	114	58 %	8	92	5
University Technological Incubator STU Bratislava	780	623	80 %	12	45	3
General Business Incubator Gelnica	2 600	2 487	96 %	6	126	4
Business Incubator Handlová	951	724	76 %	12	42	3
Scientific-Technological Incubator Košice*	x	x	x	11	124	5
Incubator Malacky	2 412	2 002	83 %	24	65	8
Martin-Flemish Business and Incubator Centre Martin	1 075	541	50 %	18	79	3
City Incubator Martin*	x	x	x	x	x	x
Business Incubator Spišská Nová Ves, Part 1	740	665	90	5	48	2
Business Incubator Spišská Nová Ves, Part 2	1 233	1 037	84 %	3	10	1
Incubator House, Moldava nad Bodvou	735	403	55 %	11	94	3
Technological Incubator Centre Prešov	898	893	99 %	12	131	6
BIC, Technological Incubator Prievidza	1 084	780	72 %	22	98	4
Business Incubator Rožňava	1 877	1 376	73 %	12	76	3
Technological Incubator Inovatech Sládkovičovo	1 159	656	57 %	10	66	6
Science and Technology Park, Žilina	770	685	89 %	34	149	4
Total	17 577	13 852	79 %	214	1 328	64

Table 3
Business and technological incubators in Slovakia (as of 31 December 2009)
* statistical data for these incubators are not available
Source: <http://www.nadsme.sk>

In the last years there is evident development of business incubators in Slovakia. They help to many entrepreneurs and create conditions to start the entrepreneurship, but also help to support technologically oriented SME. There is no one perfect model for a business incubator. Some designs are very similar to the development centres. Others are more focused on the demands of the local culture and business community and follow a format that is more in line with specific local needs. Often, the exact structure of the business incubator program depends on who is backing the effort, as well as what organizations contribute to the continued operation of the program [4].

Conclusions

Business incubators form an important part of support infrastructure for small and medium enterprises start-ups in Slovakia. Their mission is to provide the starting companies (usually for the period of 3 years from the commencement of business) with complex support on one spot and create favourable starting conditions enabling the operation of their enterprise. The base of main provided services is lease of office, production and storage premises at prices lower than usual commercial market prices and administration support for the companies (e.g. providing of conferences and showroom premises, certain clerical services, technical infrastructure and others). Apart from business premises, the incubators provide their clients with educational services and counselling (e.g. creation of business plans, counselling related to acquisition of funds for entrepreneurship, elaboration of marketing strategy, mediation of contacts, and alike). Extent and form of support in individual incubators varies depending on type, specialisation and capacity.

It can be summarized that business incubation helps to meet a variety of economic and socioeconomic policy needs in a country, which may include business creation and retention, technology commercialization, creating jobs and wealth as well as fostering a community's entrepreneurial climate.

Bibliography

- [1] Bessant, J. – Tidd, J. 2009. Innovation and entrepreneurship. Chichester : John Wiley and Sons, Ltd, England, 2009. ISBN 978-0-470-03269-5.
- [2] Burns, P. – Dewhurst, J. 1996. Small Business and Entrepreneurship. London : McMillan Press Ltd, 1996, 333 p. ISBN 0-333-64587-1.

- [3] Deakins, D. 1996. Entrepreneurship and small firms. London : The McGraw-Hill Publishing Company, London 1996, 248 p. ISBN 0-07-709068-3.
- [4] Lesáková, Ľ. 2009. Determinants of innovation activities in small and medium enterprises in Slovakia. In: Innovations – factor determining competitiveness of small and medium enterprises in the global business environment. Banská Bystrica Faculty of Economics, Matej Bel University, 2009, pp. 214 – 223. ISBN 978-80-8083-792-1.
- [5] Obchod – Priemysel – Hospodárstvo. Mesačník Slovenskej obchodnej a priemyselnej komory, ročník 2010. ISSN 1336-8117.
- [6] Pitra, Z. 2006. Management inovačných aktivít. Praha : Professional Publishing, 2006. ISBN 80-86946-10-X.
- [7] The State of Small and medium enterprises in Slovakia in 2009. Bratislava : National Agency for development of small and medium enterprises, 2009.
- [8] State of the Business Incubation Industry, 2006
- [9] Tidd, J. Bessant, J. – Pavitt, K. 2007. Řízení inovací. Brno : Vydavatelství Computer Press, 2007. ISBN 978-80-251-1446-7.
- [10] http://en.wikipedia.org/wiki/business_incubator
- [11] <http://www.bicbb.sk>
- [12] <http://www.nadsme.sk>
- [13] <http://www.sopk.sk>
- [14] <http://www.wisegeek.com>