



celebrating **25** years

Incubating Success: Best practices that lead to successful new ventures



NATIONAL BUSINESS
INCUBATION ASSOCIATION



Presentation by Dinah Adkins, NBIA President Emerita,
Saudi International Technology Incubation Conference

Based on a yet-to-be-published research study, “Incubating
Success – Incubation Best Practices That Lead to Successful
New Ventures,” by David A. Lewis et al. The U.S. Dept. of
Commerce’s Economic Development Administration funded
this study, which was conducted by NBIA, the University of
Michigan and the University of Albany (SUNY Albany).
(Expected publication in 2011)

Study Purpose and Methodology

- *Purpose:* To test whether there is a causal relationship between business incubation practices and client firm success – particularly for graduates that have left the incubator
- *Methodology:* Employed a rigorous methodology including a minimum threshold for inclusion: programs with 5 years of operation, targeted to start up firms, offering at least 5 commonly provided incubator services
- The study analyzed relationships of operating practices, services, and outcomes for a five-year period, 2003 to 2008

U.S. Incubator Population Studied

- 376 incubator eligible programs in 2009
- Findings based on 111 valid responses, yielding a 29.5% effective response rate
- Participants representative of incubation programs across industry sectors and geographic regions of the U.S.
- Predictive models utilized in the study were highly accurate in predicting program success (up to 80%)

Key Findings of the Study

- Business incubation positively influences entrepreneurial success
- Well-developed and well-operated business incubation programs substantially impact their communities
- Best practices in **operations** produces positive outcomes
- Incubator developers/funders should ensure their programs are operationally sound to obtain positive ROI

Synergy Among Practices Produces Optimal Outcomes

- No practice, policy or service is guaranteed to produce success; there is no “magic bullet”
- The service needs of incubator clients varies significantly depending on level of development, skills, industry sector, etc. Communities served by incubators differ in capacity and sponsors vary in resources, mission, etc.
- Synergy *between* helpful policies and services matters most to incubator success

Top-performing Incubators Share Common Management Practices

*All these were **highly** correlated with success:*

- Having a written mission statement
- Selecting clients based on cultural fit and potential for success
- Reviewing client needs at entry
- Showcasing clients to the community and potential funders
- Having a robust payment plan for rents and service fees
- Having/following exit policies that move clients through the program to graduation

Be a Business Role Model for Clients

- A “robust payment plan for rents and service fees” is likely a proxy for maintaining business-like, non-bureaucratic operations; possible options are:
 - Hire entrepreneurial management and staff
 - Provide “billings” to ensure clients understand the value of services provided
 - Provide incentives for collaboration; ensure consequences for non-collaboration
 - Emulate investors – evaluate client needs, set milestones, ensure performance
 - Ensure timely responses to client needs – move “at the speed of business,” not bureaucracy

Incubator Advisory Board Composition Matters

- Experts in technology transfer, accounting, intellectual property (patent assistance), general legal expertise, entrepreneurs, and key influencers benefit incubators
- Also, government and economic development agency representatives can assist. Their presence ensures community “embeddedness.” These officials help educate critical funding sources about the program and its successes.

Neither Program Size Nor Age Are Strong Predictors of Success

The incubator's *programming and management matter most of all (to varying degrees, all of these have significant relationships to firm success :*

1. Staff-to-client ratios ratios are strongly correlated to client firm performance
2. Number of staff
3. Manager's experience (continuity, or years as an effective manager)
4. Program revenues and expenditures
5. Collection of outcome data
6. An array (menu) of entrepreneurial services

High-achieving Incubators Collect Client Outcome Data More Often and for a Greater Time

- 2/3s of top programs collect outcome data; >50% of top performing programs collect outcomes for 2 or more years, and 30% collect data for 5 years or more
- Data include client and graduate firm revenues and employment, firm graduation and survival rates, and information on the success of specific program activities and services – <http://www.nbia.org/impact/index.php>
- Collecting data leads to greater funding and thus, a) greater sustainability and b) more resources for better programming. Both can result in *more* clients and graduates

Other Characteristics of High-performing Incubators Are:

- All but one high achieving program were nonprofit incubators (for-profit models = 7% of pool)
- Their goals were creating jobs and fostering the entrepreneurial climate, followed by diversifying the local economy, building or accelerating new businesses and industries, and attracting or retaining businesses to the region
- Only 3 top-performing programs operated without public sector support from local governments, universities, agencies and other sponsors

Incubation Programs with Larger Budgets Outperform Others

- Programs with greater financial resources have more capacity to deliver critical client services and are more stable.
- Incubators receiving a larger portion of revenues from rent and service fees perform better (avg. 60% of an incubator's budget is accounted for by client rent and service fees)
- Programs that invest in staffing and program delivery – relative to building maintenance and debt servicing, etc. – have improved client outcomes
- The findings suggest public sector support contributes to greater job creation, graduation rates and other outcomes of public interest

All Measures of Incubator Size, Age, Regional Employment and GDP Are Poor Predictors of Incubation Program Outcomes

Incubator management practices are better predictors of incubator performance than the size or growth of the region's employment or GDP

Measures of Regional Capacity to Support Entrepreneurs Have Limited Effect on Outcomes

Collectively, measures of a region's capacity to support entrepreneurship matters less than incubator quality. Of capacity measures studied, *only* for urbanization, work force skills, availability of locally controlled capital, and high education have a *moderate* influence on incubator client outcomes

The Findings Provide Empirical Evidence That Business Incubation Best Practices Positively Impact Program Success

- Specifically, practices related to the composition of advisory boards, hiring qualified staff that spends sufficient time with clients, and tracking incubator outcomes result in more successful incubation programs, graduates and clients

Recommendations for Policymakers

- Require implementation of industry best practices and ensure adequate finances
- Require collection of outcomes
- Ensure external, independent evaluators conduct periodic assessments

A Free Benchmarking Tool and Library of Information

With assistance from the Appalachian Regional Commission, I developed a benchmarking tool and library of information on incubator operational best practices, available free at:

http://www.nbia.org/resource_library/peer/benchmark/index.php

The tool has now been updated with information derived by new NBIA publications including the study noted and *Best Practices in Action – Guidelines for Implementing First-Class Business Incubation Programs*



celebrating **25** years

Thank you!

Dinah Adkins, NBIA
President Emerita

See www.nbia.org



**NATIONAL BUSINESS
INCUBATION ASSOCIATION**