

## Editorial

Governments and donors have been investing in business incubators for a long time. In the 1970s British Steel Industry set up incubators in eight locations where British Steel was restructuring steelworks and making large numbers redundant. These incubators provided mentoring, support services and infrastructure, as well as a space in which start-up businesses could meet and learn from each other. Between 1975 and 1996 BSI had invested over £12 million in managed workspace, and 1,350 businesses had benefited from them (British Steel Industry, 1996).

The ultimate aim of BSI's incubators was to lessen the devastating effects of steelwork closures by stimulating enterprise and employment creation; businesses of all types were welcomed as long as they stood a good chance of viability. More recently in the 1990s the emphasis has been on clustering sector businesses together – especially high-growth sectors and IT businesses – and locating the incubators adjacent to universities, where businesses can benefit from research.

In this edition of *EDM* focusing on business incubators, examples of both strategies – poverty alleviation and high-tech growth – are apparent. Aruna Chandra's article on Brazil's growing incubator programme includes 'social incubators' in deprived areas, where the emphasis is on start-ups and job creation; it also includes high-tech incubators where businesses make high value-added products. China's incubator programme, described by Aruna Chandra and Wei He, is part of its industrialization strategy that aims to move away from cheap goods to high value products. China now has 20,000 businesses housed in vast business incubation sites; and this strategy has nurtured some very successful corporations through their infancy.

Business incubators are a growing phenomenon around the world. But are they a good use of donor funds, or hard-pressed government funds in developing countries poorer than China and Brazil? This is the question that Linda Jones asks in her Crossfire debate with Drew Tulchin, on the subject 'Incubators are unnecessary interventions that do not support business service markets'. She points to the example of Katalyst in Bangladesh which, by stimulating advice and services by market players, has reached 100,000 small businesses and farmers at a cost of only US\$15 million. Compare this with £12 million (\$17 million) for helping start up 1,350 businesses in British Steel's incubators in the example given above. Katalyst is not only good value, these services are likely to persist into the future, whether or not Katalyst continues, in contrast to most business incubators that rely to a great extent on government subsidy for their running costs.

---

© Practical Action Publishing, 2009, [www.practicalactionpublishing.org](http://www.practicalactionpublishing.org)  
doi: 10.3362/1755-1986.2009.001, ISSN: 1755-1978 (print) 1755-1986 (online)

If we want to assess the cost-effectiveness of this approach we need to find answers to the following questions. What is the success rate of incubators in terms of the percentage of businesses that 'graduate' from them and survive – and is this better than the businesses would have achieved outside? Do incubated businesses have an impact on poverty – either through wealth accumulated for their owners or through employment created? Regarding employment, the articles in this edition indicate that usually an average of 5–10 jobs are created per incubated business; Wuhan East Lake New Tech Centre in China is an exception with 60,000 jobs created by 886 businesses. Fewer than 10 jobs is a reasonable, if modest, achievement for a recently graduated start-up business; one might hope for more jobs created a few years later, but this information is hard to come by once the business has left the incubator.

Regarding survival rates, the European Commission found that 80–90 per cent of European incubated firms were still in operation after five years, compared to a failure rate of one third of all new businesses in three years (Centre for Strategy and Evaluation Services, 2002; Small Business Service, 2005). The comparison is probably unfair, however, given that incubated businesses have already been selected on entry for potential to succeed. Another issue is that bought-out businesses are usually indistinguishable in the statistics from failed businesses, though the former are not necessarily failures.

Given the amounts invested in business incubators, we could wish for better statistics on business survival rates and jobs created, statistics based on independent survey rather than figures reported by the incubators themselves.

Defending the use of public funds is not an issue where the incubator is privately owned. The owner of Raizcorp, an incubator in South Africa, invests his own funds in the equity of his clients, so one can expect him to have done his research into their viability. Read Allon Raiz's article to find out more.

The evidence from these articles is of a thriving incubator industry around the world, with a variety of strategies and some startling results. Whether this is the most cost-effective way to stimulate small businesses in poorer developing countries is less clear.

*Clare Tawney, Editor*

## References

Small Business Service (2005) 'Small Business Myths', London: Department for Trade and Industry.

Centre for Strategy and Evaluation Services (2002) 'Benchmarking Business Incubators: final report', Brussels: European Commission.

British Steel Industry (1996) 'Twenty-one years of going for growth', British Steel Industry, Sheffield.