

KENAN INSIGHTS

Business Incubators: If you build it, will entrepreneurs succeed?

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Executive Summary

- Business incubators are taking on a greater role in ecosystem development, but debate continues over whether, how and in what situations they work.
- Incubators provide key tangible and intangible resources. New entrepreneurs often underestimate the importance of intangible resources, such as business knowledge and social capital.
- In response to the COVID-19 pandemic, many business incubators have pivoted to virtual programming in order to continue to serve their entrepreneurs.
- A [new guide from NCGrowth](#) helps local leaders determine if a business incubator is right for their community and outlines best practices for implementing an incubator.

The Value Proposition of Incubators

Business incubators offer a combination of affordable workspace, strong community partnerships and critical business advisory services that support entrepreneurs and their businesses. Firms typically apply to join and participate in the incubator for a predetermined amount of time before moving into the community. There is room within this definition for different incubator models with varying amounts of space dedicated to different functions, services and types of business assistance. Research indicates that business incubators have a positive effect on job growth in participating firms, and that firms in incubators receive more business services than firms not associated with an incubator.¹

Business incubators are frequently confused with coworking spaces and business accelerators — all three of which have grown in prominence in the last decade. Coworking spaces provide office space and basic amenities (e.g., printers, shared kitchens, etc.) at a low cost, with little to no programming. Business accelerators are aimed at high-growth startups and generally provide more structure and programming for a fixed term, usually ending with a pitch competition or demo day with potential investors.²

¹ Stokan, E., Thompson, L., & Mahu, R. J. (2015). Testing the Differential Effect of Business Incubators on Firm Growth. *Economic Development Quarterly*, 29(4), 317-327. <https://doi.org/10.1177/0891242415597065>

² UNC Entrepreneurship Center. (2020). *Trends in Entrepreneurship*. Frank H. Kenan Institute of Private Enterprise. Retrieved from: <https://frontiers.unc.edu/index.php/trends-in-entrepreneurship/>

POLICY TAKEAWAYS

- In certain contexts, business incubators provide needed resources to entrepreneurs and make young businesses more successful—in certain contexts. Incubators should carefully evaluate how much the bridging, buffering, and curating mechanisms are needed in your community and whether there is enough financial and human capital for an effective incubator staff.
- Entrepreneurs don't always know what they need and may hesitate to take advantage of all the resources an incubator provides. Incubators should promote business training as a core value proposition and employ assertive strategies to help entrepreneurs to take full advantage of opportunities such as networking and mentorship.
- If an incubator is not right for your community, there are alternative policies and programs that may be implemented to promote entrepreneurship —. For example, consider zoning laws that make low-cost business space more available or small business skills workshops. Additionally, as we have seen through the coronavirus pandemic, most incubator programming, including trainings, pitch competitions and networking events, can be effectively provided without needing the need for a physical space.

Figure 1: Types of Business Incubators

	Main philosophy: dealing with	Main objective	Secondary	Sectors involved
Mixed Incubators	Business gap	Create startups	Employment creation	All sectors
Economic development incubators	Regional or local disparity gap	Regional development	Business creation	All sectors
Technology incubators	Entrepreneurial gap	Create entrepreneurship	Stimulate innovation, technology startups and graduates	Focus on technology recently targeted, e.g., IT, speech, biotechnology
Social incubators	Social gap	Integration of social categories	Employment creation	Nonprofit sector
Basic research incubators	Discovery gap	Blue-sky research	Spinoffs	High tech

Source: Aernoudt R. (2004) Incubators: Tool for Entrepreneurship? *Small Business Economics*, 23, 127-135. <https://doi.org/10.1023/B:SBEJ.0000027665.54173.23>

How Incubators Support Young Firms

Business incubators support young businesses through three primary mechanisms — buffering, bridging, and curating. Through *buffering*, incubators protect young firms from competition and external threats. For example, shared basic business services help offset costs. *Bridging* connects firms to outside resources, knowledge and social capital. This often includes networking with mentors, investors with industry expertise, and early buyers and suppliers.³ When firms need help sifting through many available resources, *curating* connects them to the most appropriate ones.

Business incubators’ success can vary widely from community to community. As one study notes, “simply mimicking successful incubators in one region may not lead to success for incubators in other regions.”⁴ First, the ability of an incubator to support businesses can be dependent on the type of community — rural versus urban — and the needs of the businesses within that community. Research shows that incubators are most likely to increase firm survival in highly specialized urban areas or diversified rural areas.⁵ In urban areas with strong industry specialization, firms benefit from knowledge spillovers, resource sharing, more affordable office space and better resource matching. Since firms in these areas can suffer from intense local competition and congestion, incubators

³ Amezcua, A. S., Grimes, M. G., Bradley, S. W., & Wiklund, J. (2013). Organizational sponsorship and founding environments: a contingency view on the survival of business-incubated firms, 1994–2007. *Academy of Management Journal*, 56(6), 1628–1654. <https://doi.org/10.5465/amj.2011.0652>.

⁴ Amezcua, A., Ratinho, T., Plummer, L. A., & Jayamohan, P. (2019). Organizational sponsorship and the economics of place: How regional urbanization and localization shape incubator outcomes. *Journal of Business Venturing*, 105967. <https://doi.org/10.1016/j.jbusvent.2019.105967>

⁵ Ibid.

can help protect young firms and provide valuable business connections. In rural economies, the opposite tends to be true. Incubated firms are more likely to survive than non-incubated firms in rural areas with little industry specialization. The buffering and bridging support mechanisms are most relevant in this context.

Social Capital is Essential for Incubators

Through networking and community-building events, incubators facilitate social capital. Bridging social capital — the loose connections with outside resources such as industry and government — can help incubated firms increase management efficiency.⁶ A proactive incubator manager is essential to connect incubated firms with outside resources, but is not the only internal factor essential for success (see figure 2).

Figure 2: Internal Factors Predicting Incubator Success

Internal factors predicting incubator success
Number of services offered
Client-to-staff ratio
Manager’s hours per week
Manager’s experience
Advisory board makeup

Incubated Startups Do Not Always Use Available Resources

Though incubators offer many types of tangible and intangible resources, startups often enter with a focus only on gaining physical and financial capital. Consequently, business trainings

⁶ Redondo, M., & Camarero, C. (2019). Social Capital in University Business Incubators: Dimensions, antecedents and outcomes. *International Entrepreneurship and Management Journal*, 15(2), 599–624. <https://doi.org/10.1007/s11365-018-0494-7>

and mentoring services often go underutilized, decreasing the potential effectiveness of incubators.⁷

Prior research has found that the underutilization problem can stem from a poor match between the resources entrepreneurs need and the resources being offered by the incubator. Recent academic literature points to poor resource matching as only part of the problem, but concurs that many new entrepreneurs fail to take advantage of all the resources offered by a business incubator.⁸ Therefore, it falls on the incubator to implement assertive strategies to get entrepreneurs to actively participate in and connect with the offered services.⁹

Incubators and COVID-19

While some core incubator functions, like events and in-person meetings, may be hampered by COVID-19, the role of incubators remains as important as ever. As recovery funding for small businesses was rolled out over the summer, businesses that were already well networked were in a much better position to hear about, apply for and receive funds — and therefore more resilient in the face of unexpected circumstances. This underscores the role that incubators can play in connecting firms to each other and to outside resources, contributing to long-term economic resilience.

⁷ van Weele, M., van Rijnsoever, F. J., & Nauta, F. (2017). You can't always get what you want: How entrepreneur's perceived resource needs affect the incubator's assertiveness. *Technovation*, 59, 18–33. <https://doi.org/10.1016/j.technovation.2016.08.004>

⁸ Ibid.

⁹ Ibid.

Many incubators have remained open throughout the pandemic, working with local officials to be designated as an essential service. With new cleaning protocols and reconfigured space to maintain physical distance, an incubator can still successfully provide space to member businesses. Events can be moved to an online format, maintaining many network-building opportunities. Other ways incubators can support member businesses during the COVID-19 crisis include:

- **conducting surveys** to understand the changing needs of members and the impacts of the pandemic on business operations
- **advocating** for member businesses at the local and state level for policy and funding resources
- **connecting** members to funding resources
- **partnering** with other entities to **administer grant and loan funds** or to provide technical assistance to companies receiving recovery funds
- **seeking** business opportunities and matching member capabilities with local pandemic-related needs
- **conducting a marketing campaign** for member businesses to let local customers know how they can safely support them
- **offering access to meeting and productivity platforms** as a benefit to member businesses
- **providing free Wi-Fi** in the parking lot or another outdoor space for businesses and the community
- **activating outdoor spaces**, such as parking lots, porches, alleys and parks, as sites for meetings and small events
- **providing training** on safe operations and how to pivot business operations

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[NCGrowth's Incubator Guide Launch: How to Determine if an Incubator is Right for Your Community](#)

[Entrepreneurial Team Formation and the Role of Trust and Control](#)

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INSTITUTE PUBLICATIONS

[Coworking Spaces: Working Alone, Together](#)

More Research at kenaninstitute.unc.edu/research

OTHER RESOURCES

[NCGrowth Incubator Guide](#)

[Frontiers of Entrepreneurship 2020 Trends Report](#)

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Redondo, M., & Camarero, C. (2019). Social Capital in University Business Incubators: Dimensions, antecedents and outcomes. *International Entrepreneurship and Management Journal*, 15(2), 599–624. <https://doi.org/10.1007/s11365-018-0494-7>

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