



**REPUBLIC OF MONTENEGRO
GOVERNMENT OF THE REPUBLIC OF MONTENEGRO
Directorate for development of small and
medium-sized enterprises**

PROJECT

«ESTABLISHING BUSINESS INCUBATOR»

draft version

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INTRODUCTION

In all parts of the world, the major part of new job positions are created in new and small enterprises, which are growing and developing, and specializing to produce new goods and services. These new and small enterprises are of vital importance for economic health of a country. New and small enterprises are also reality of global economy – where flexibility and individual creativity plays the big role. So, actions to foster new business and small business growth are important.

The early life of start-up enterprises is a difficult period. Managing growth, developing new skills in areas such as accountancy, regulatory affairs and marketing present considerable challenges to entrepreneurs, which can lead to the failure of start-ups within the early years of operation. The biggest cause of failure in new starts is simply because small businesses have to “go it alone” with no support directly provided to entrepreneurs to help them remain enthusiastic in the face of difficult conditions and long working hours. In transition countries difficult registration and legal procedures, as well as the lack of support services to companies make these first years of operation especially difficult.

Research from across Europe shows that this is an area where local authorities and institutions can provide high added value. Helping new and small enterprises through this period with a business incubator presents a major opportunity to support job creation and economic development. It represents a chance for local agencies, institutions, local authorities to demonstrate their willingness to act and support entrepreneurs. Evidence shows that this type of assistance can bring real benefits to the local economy.

1. OBJECTIVE

The basic objective is establishing business incubator as tool» for entrepreneurship development enhancement, which enables establishing new enterprises, creating new job positions, as well as developing new ideas and technologies.

2. TASK

In order to realize successfully a project, certain activities should be fulfilled, such as:

State analysis – interest and demand for establishing business incubator should be analysed from the side of entrepreneurs and small enterprises, as well as their willingness to be part of this kind of support;

Defining partnership in financing incubator establishment - in order to have stable incubator financing, it is necessary to define partners in project forming, financing obligations, and also independence of incubator management from financiers.

Location selection of space/object –it is very important to select right space for incubator location. It should be near infrastructure facilities, and potential clients too.

Management establishment–establishing qualitative management/management team is of high importance for »feasible« functioning of the incubator. Management/management team has to be independent from each influence that has not business nature.

Making business plans for functioning the incubator – business plan should precisely define rules of incubator operations, offered services, conditions for entering and leaving the incubator, etc

3. WHAT DOES A BUSINESS INCUBATOR LOOK LIKE?

Business incubator represents “home” for creating new and small enterprises. There is great number of data from around the world showing that new-starts failure in early period of their operation. Nevertheless, those that survive, continue to grow and create most jobs in local economy. Thus, it is crucially important to support new and small enterprises to survive this period. Business incubators are created aiming at providing the following:

- ❖ Lower rent than usual
- ❖ Short term rent contracts without demanding long term obligations
- ❖ Other advantages such as facilities with small or none refund
- ❖ Business advices directly delivered (e.g. accounting, legal questions, and other vocational fields)
- ❖ The sense of “community”, which stimulates enterprises to succeed.

When starting new enterprise, incubator reduces costs and risk, and offering to potential entrepreneurs and their enterprises the biggest chances to survive. Incubators are established for enterprises to help them survive the early period of operation. Thus, they are useful instrument which authorities at all levels could use in order to stimulate forming and growing new enterprises.

Business incubators usually consist of a large number of small business units (usually anywhere between 5 and 50). Typically they are:

- ❖ Located in one place, usually one building
- ❖ Premises are offered at flexible, low cost terms, with easy rental agreements
- ❖ Provided with integral on-site business advice, training and consultancy support services, at low or no cost.

Fundamental to the incubator concept and its success is the on-site provision of skilled, professional one-to-one small business advice. Without this, premises are just managed workspaces – which are similar to incubators, but tend to offer only property services to establish small businesses to help them with space to grow – it being expected that growing businesses will already have access to general advice or have developed “survival skills”.

Incubators tend not to house businesses for more than 3 years. During years 1 to 3, businesses are encouraged to “move on” to other property, and the free space is used for new start-up enterprises. The idea is that the benefits of a sheltered environment should only be provided to support the early of a new business. An effective selection and exit policy is therefore vital.

The most successful incubators have a clear view that they exist to encourage employment growth, not to subsidize failing or ineffective businesses.

In transition economies, evidence shows that small local incubators, particularly those with seconded staff and property made available from redundant buildings, can start for relatively small amount of money. Research shows that there is a large group of incubators worldwide that have been established for around 100.000 €. Clearly larger and more sophisticated incubators, or those requiring more extensive building work, can cost more.

4. KEY SUCCESS FACTORS – WHAT WILL MAKE AN INCUBATOR MORE LIKELY TO SUCCEED?

Research shows that the main reason that incubator schemes “fail” are because of unclear aims and objectives at the outset of the scheme, or because of a lack of sound incubator center business management skills.

It is important to note several key success factors for incubators:

- ❖ An incubator manager or resident business advisor who is properly experienced and/or qualified to provide marketing and business planning support to small owned managed businesses
- ❖ A selection policy that focuses on business starts or small businesses most likely to offer employment growth quickly
- ❖ An exit policy that clearly identifies when successful enterprises must move on
- ❖ Occupancy rules requiring poor performers to leave the incubator immediately
- ❖ Clear ownership of the premises used for the incubator for an extended period of time (5-10 years)
- ❖ Appropriate “infrastructure”, including utilities and telephone connections, available to all tenants

- ❖ Strong support from local institutions
- ❖ A committed staff team.

Overall experience shows that business incubators are best operated at «arms length» or partly independent from the local authority / property provider institution, and on a business –like basis.

5. HOW SHOULD WE START? **AN EIGHT - STEP TO SETTING UP BUSINESS INCUBATOR**

1. Carry out a new business market assessment

This means, identifying demands and business support needs and defining the target «population group» - or business aims of the incubator. This stage may entail a small business survey and an analysis of the type of accommodation and services needed. Often information will be available from local NGO's or from business associations. Evidence from neighbouring countries is that demand for properly run incubators exceeds supply.

2. Identify the location/site

Find a suitable site and assess its facilities (water, power, telephone connection, electric generation, parking). If reconstruction is needed, it should be designed properly and allow for business flexibility, good security, tidiness and cleanliness. Location should preferably be close to services, utilities, and potential customers or clients. Space must be available for «one-stop-shop» advice services, meetings and facility management. Ideally there should be space to expand the number and size of working spaces.

3. Select the incubator manager

The incubator manager is one of the most important factors in the future success of the incubator. His/her ability to create and maintain a positive business environment and culture is necessary to sustain the incubator in long-term. The manager should be chosen before the incubator starts operating in order to ensure the same rules are followed for all potential tenants.

Operational issues must also be clear, management must be transparent and completely separated from local political or any other non-business issues. A municipality might choose to do this by setting up a partnership arrangement with local business association or NGO taking on the management functions, alternatively a municipality could set up a semi-independent agency. It is essential that the management function can operate without influence from any «external» powers.

4. Develop a business plan

The business plan should specify:

- ❖ **Which business services will be provided** (these will underpin the performance of the incubator):
 - a) Which will be permanently located in the building and which will be «bought in» as necessary
 - b) How many/how often the services will be provided to each business
 - c) The charging policy or other criteria that will be set
 - d) The types of target result/outputs that will be set

- ❖ **The operational rules of the incubator:**
 - a) Criteria for entry
 - b) Rental policy
 - c) Exit policy
 - d) Break-even point analysis (comparing expenses and expected incomes from rents and services provided).

- ❖ **The marketing strategy**
 - a) The types of businesses to be targeted
 - b) Aspects of long-term sustainability

5. Establish a funding agreement

This should clearly state who funds what, and to what extent the facility is independently run. (Even if a municipality is funding an incubator, it should not be directly involved in its management). It is important to ensure this step involves all parties in order to avoid future conflict.

The business plan and funding agreement should be reviewed after the incubator is designed. It is vital to confirm that the overall operational aim is to generate employment through business support, not a social aim.

6. Complete the incubator site

The last stage is the completion of the site, which will inevitably require works and equipment. This is best done with the participation of the business advisor and incubator manager who will have to live with the result. The equipment and works should be driven by the business plan and the identified service level.

7. Identify tenants

Even before this location is ready for use, the marketing strategy outlined in the business plan should encourage enquiries and applications from aspiring start – up businesses and pre-start advice and business assessment can be given. This should not depend on entry, and should be used as a final pre-entry selection step.

8. Sign tenancy contracts

The new tenants can then sign a contract with the incubator and can begin activities in the incubator.

6. WHAT ARE THE DEFINING CHARACTERISTICS OF AN INCUBATOR?

- **Selection** – incubators »vet« the business and the business ideas/proposals to ensure that those selected can gain most from the incubator and offer most to the local economy. This usually means excluding retail and trade activities (since they are generally over – represented) and choosing business activities that are under – represented in the local economy,
- **Support** – incubators provide »hands - on« tailored »one-stop-shop« business support for tenants;
- **Incubation team** – the support will be packaged by one –site business advisor/advice team, as well as having bought in specialist services;
- **Graduation** – the businessesn are encouraged to move on once they have grown, gained markets and maturity;
- **Types of Business** – incubators are more likely to focus on businesses with the potential to grow and develop quickly.

7. HOW SHOULD WE MEASURE THE INCUBATOR'S PERFORMANCE?

Operating a business incubator requires an understanding of modern market economy and small business culture. Being required to monitor and measure the incubator's performance and demonstrate effectiveness to local stakeholders is vital. It is also considered to be good practice for incubator managers.

Commonly used performance indicators include:

Occypancy	Records should be kept about: <ul style="list-style-type: none"> • Monthly and yearly occupancy rates • The types of business tenants • Profile of the owners and employees, including gender and ethnicity. It is important to aks which occupants are succeeding and why.
Financial performance	The incubator should operate on business principles and monitor its financial position carefully. Debts owed to the incubator by tenants must be measured, accounted for and minimised. Bad debts, ie. Unpaid debts, are not acceptable
Enquiries	Information on the source, type and nature of enquiries should always be recorded and analysed
Business performance	Basic business health checks monitored through time well reveal businesses with realistic planning and achievents, and the potential to expand or create new jobs.
Service performance	Regular feedback from tenants on the efectiveness of services provided – avice and property

Publicity	Local general publicity coverage as well as coverage of each business, and any resulting market impact should be collated. If the incubator seeks to target specific groups this should be part of the publicity performance
Complaints	All complaints should be logged, acted on and subsequently analysed to prevent further problems
Communal Facility usage	A record should be kept of the use of communal facilities (eg. Meeting rooms, equipment) including evening, weekend and overnight useage
Exit monitoring	Detailed information on why businesses leave – collected for all businesses that move on from the incubator – is vital

8. » SOFT« FACTORS IN INCUBATOR PROCESSES

There are many informal incubator work aspects that can make it successful or unsuccessful. The most important ones are:

- **Union of companies** – it is important to promote the business culture inside incubator. Entrepreneurs must feel that process of managing the incubator is driven by business interests; incubator staff – that can be staff of local authorities – must reflect this. For example, if staff and services are available only until afternoon hours, sense of mutual support and common objectives could not develop.
- **Policy of limited residence** - it is necessary to establish and implement in practice policy of limited residence. In order to facilitate this, the incubator team must be in contact with the programs for providing real estate under commercial and other base, and stimulate incubator residents to introduce local real estate market. It is not desirable to allow companies` residence inside incubator longer than three years or to appear unhelpful at time of exit.
- **Basically review of newcomers** – potential tenant – renter should be estimated not only by estimation of the company but based on its capability to adjust into incubator` environment and to cooperate with other tenants – renters and personnel.
- **Business plan** – must be developed before the company is accepted. It can be modifies later, but it is necessary to have in mind that business plan is the guaranty that generally exists operation plan which should be followed by the incubator tenants, from the first day and which allows them to accomplish revenue and salaries.
- **Business support** – for most companies it is necessary to offer support “ where is necessary “ in some moment during starting phase of business. Having in mind this need, the ethic of incubator center should be based on capabilities to offer multi qualified flexible support that reacts on almost each need of small company in the short time term. In some situations this support may depends on the quality of available support that can be offered by local authorities.

- **Network partners** – there are many organizations and individuals which can give support or comfort to small companies in the local areas. Their spectrum varies from private consultants to government departments and international organizations. Incubator manager should actively stimulate those partners to engage and offer support and counsels.

9. BARRIERS TO PROGRESS

Establishment of successful incubator requires a lot of time and hard work. However, there are certain factors in creation of incubators that might help to surpass obstacles to succeed at the beginning. Those are:

- **Avoiding too many meetings** – local authorities and government employees often manage in a centralized way or with often address to municipality or the ministries. Effective incubator cannot operate this way. In order to avoid practice of “getting approvals”, business plan and every financing contract must have an agreement that incubator manager/business consultant will be the person who makes decision. If this is not adequate, it is necessary to name in advance a person who will be “protector of interest” and will solve doubts and help to make right decision in the moment when it should be made, not after arise discontent of companies in incubator center.
This is equally related to company registration and issuing documents – where will be insured at the time that companies tenants – renters of incubator may grow and mature. Therefore, incubator` personnel have to agree with local authorities to arrange a special place where can be done registration and document issuing jobs.
- **Secure flexible private capital** – development funds can be often provided from business sector or other independent bodies. Providing of flexible financing or giving grants may be vital important to ensure that incubator may prepare second phase or satisfy needs for growth after started mature. Involvement of successful local entrepreneurs and representatives of interested international organizations in Council board at the beginning may facilitate this in some later incubator phase.
- **Develop small business advisory capability** – consultant services to small enterprises that incubator provides are fundamental characteristic of incubator. Most local authority employees and interested entrepreneurs in Montenegro have little experience with small companies in the market economy. It might be difficult to name someone who would have appropriate qualifications or experience related to small and new-started companies, but it is necessary to avoid compromise in this important area. Incubator will have small chances for success unless you have real good consulting service for advising small companies.

10. THE POTENTIAL OF ESTABLISHING BUSINESS INCUBATOR IN MONTENEGRO

The knowledge and information held by Montenegrin citizens about Business Incubators are relatively poor at the moment. Generally speaking, people know little about this concept. The lack of understanding of the function and benefits of business incubators is one of the reasons why incubators have not previously been utilized in Montenegro. But we have to be conscious of the fact that Montenegro has the two key ingredients for business incubators:

1. unused industrial and commercial property that can easily be converted into workspace for small/start up businesses. Much of this is owned by the state and can be accessed immediately
2. an underused local resource in the form of local small business consultancies and agencies.

In other words, there is scope for quick start activity in all local areas by local actors to provide property for incubators, with intensive one to one business advice and support on site.

10.1. WHO CAN SET UP AN INCUBATOR?

There are many different types of incubators, and several different types of main partner or sponsor can set up one. In United Kingdom for example universities, local authorities, recently privatized state businesses, local economic development organizations and local NGOs, as well as local economic development enterprises, are all involved in incubators.

Different institutions and parties in Montenegro are interested in setting business incubator, and they can be initiators of this idea, with the support of international organizations and donors:

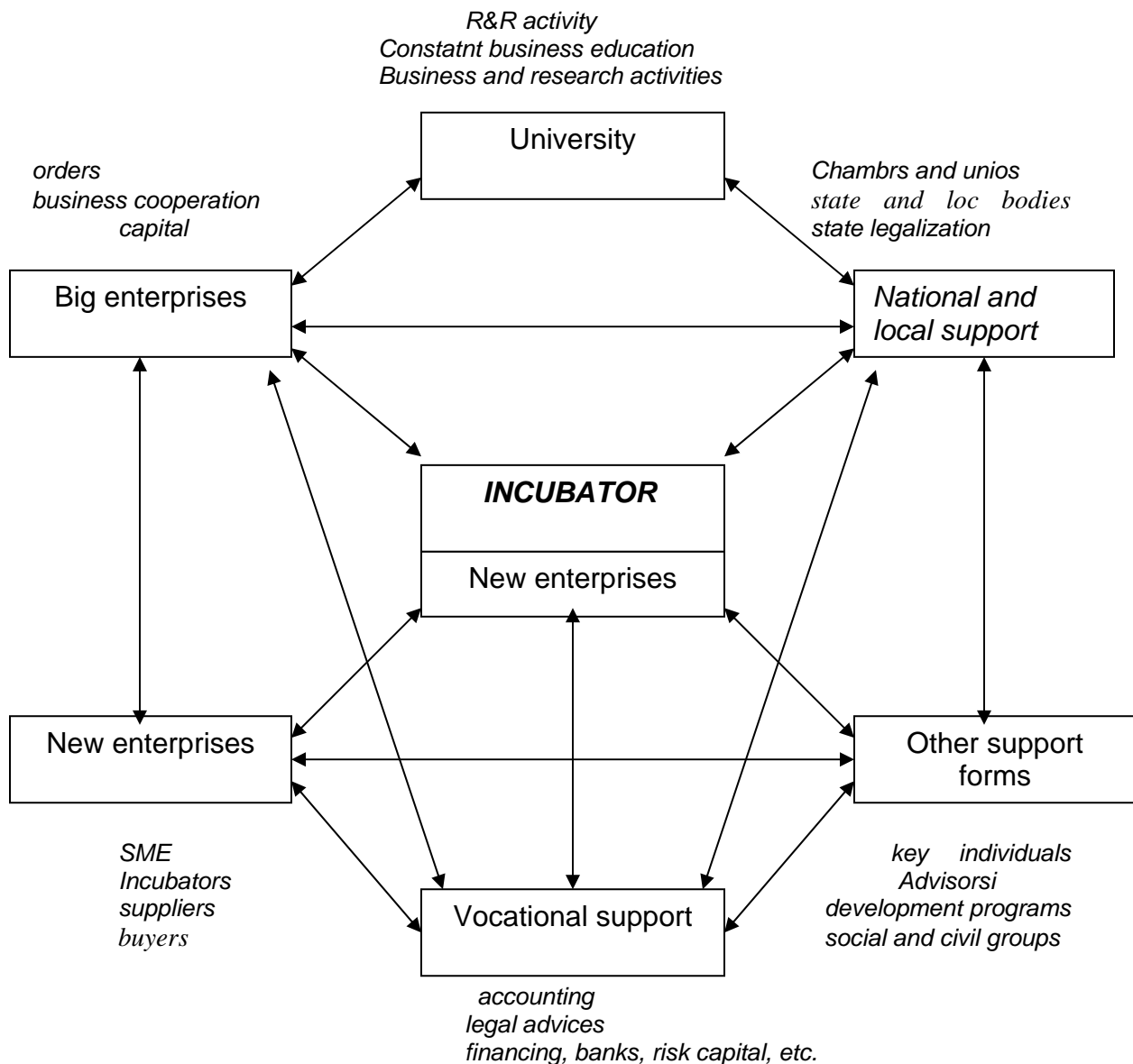
- The Government, which, through such projects, could both influence the development of the economy and entrepreneurship and enable technology and knowledge transfer and the creation of new jobs.
- Entrepreneurs, companies and business associations that could be both users and financiers of projects.
- The University, particularly the Schools of Electrical Engineering, Science and Mathematics, Machine Engineering, Economics, and Computer Science in Podgorica, where there is a concentration of ideas and students who want to start a business.
- Consulting centers, though the provision of expert advice and consulting services.

The results of the research on the need for the realization of the project Business Incubators in Montenegro, initiated by Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) shows that most of the interviewees thought that the

Government should be the main initiator of the project, together with the University and in partnership with private enterprises and business associations.

The emphasis is on the Government, because most considered it to have the most interest in increasing production and employment in Montenegro. Besides the Government, the initiators could also be different Faculties (Faculty of Electro-Techniques, Faculty of Mechanics, Faculty of Metallurgy, Faculty of Economics) in co-operation with the Secretary for Development or the Directorate for the Development of Small and Medium-sized Enterprises and international organizations.

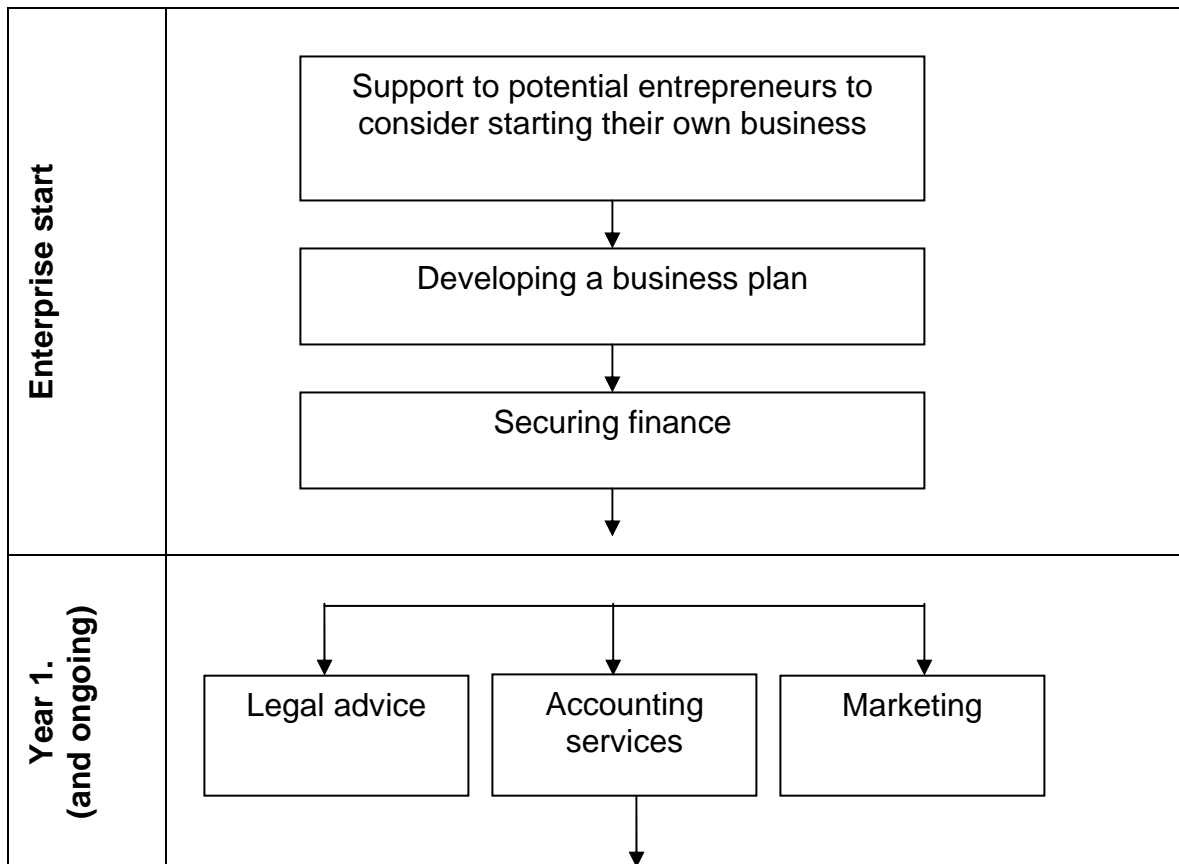
Entrepreneurship network needed for enterprises in incubator:

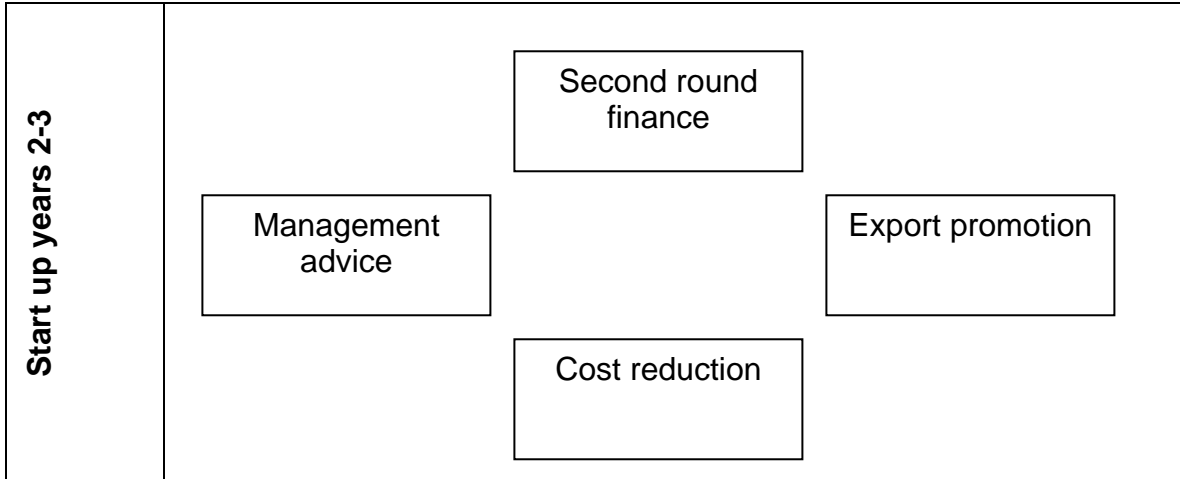


10.2. WHAT SERVICES SHOULD BE PROVIDED IN AN INCUBATOR?

Different types of incubators provide different services, depending on the needs and the problems faced by local businesses. The key elements are the provision of an environment where business can start their work quickly and can expand their operations rapidly. This is achieved by providing some or all of the following services:

- ❖ Provision of workspace and lowered rents on flexible terms, allowing the business to pay monthly rent and with the flexibility to move to larger or smaller units within the incubator as and when required
- ❖ Provision of business advice and support services ranging from business planning, market advice, accountancy, legal and registration support
- ❖ Provision of common facilities (conference rooms, restrooms, reception areas), staff (reception staff), and equipment (conference equipment, photo copiers, fax machines)
- ❖ Provision of utility services (telephone, water, gas, drainage) at affordable rates and without high initial connection fees.





11. INCUBATORS IN WORLD

The incubators were firstly established in USA, by using the Japanese organizing model, which stimulated development of small family enterprises, locally founded. First incubators in Great Britain were established in 1980., after the big economy decline 1982/83, high unemployment and starting of privatization policy. Until 1996. only 25 incubators were registered, but a number of arranged work space programs already existed. In the last five years the number of incubators were increased rapidly, and there are around 100 now.

Companies, which were hired by contract, are managing the most of incubators in Great Britain and they provide the business services and manage the real estate. The other incubators were managed by companies, which lease the property. Financial resources for business start of incubators in Great Britain is provided by local authorities (or donors of real estate) and European Union, in general, but private sector rents and other revenues are a significant support when incubators grow. In a half number of incubators, the local universities and high schools are involved- either as money donors, real estate donors, personnel support, or as providers of graduates and university personnel for new-established companies.

The policy which recently was conducted by Sector against excluding from society, near the Prime minister cabinet, confirmed the need for more incubators, especially in »black points« of high unemployment. In 2000. the budget directly named for this purpose was determinate.

In Europe, the incubator concept has appeared recently, but it is common now in the most European countries. Directorate for employment and social policy of European Union gave guidelines for encouraging of incubator establishment as measure for support of active workforce market, and solving of excluded groups problems which economic rights are endangered. All country members and

candidates for European Union accession adopted the model of incubators in different areas.

11.1. GOOD PRACTICE EXAMPLES OF INCUBATORS

PORIN, RIJEKA, HRVATSKA

Incubator in Porin, was established in 1996. by Rijeka town and it's partners, Primorsko Goranske County and Riadria bank ltd.

Rijeka town considered the existence of possibilities for small enterprise development, which could offer goods and services for local economy. Incubator in Porin is established in building of 2000 m² space, and it includes the administration offices, conference room and common spaces. Renters are paying the rent, which provides them the maximal support in early stages development, and stimulates them to leave the incubator when enterprise grows. The renting program lasts for 5 years for activities related to industrial production, and 3 years for companies from service sector. The activity related to production is "free of renting", and from second to fifth renting year the rents are increasing. The tenants- renters are supported by business services, advises, legal advises, finance accession and overall program for business education. All this is provided also to the enterprises, which are not in incubator.

This incubator is working almost with fool capacity, and business activities of their tenants vary from optical engineering, fair security to creation of computers software. Incubator in Porin supports the enterprises with 42 employees.

This is a useful example of successful incubator. The incubator has a very good service for space renting and giving advices, and formalized program of business training.

JESENICE, SLOVENIJA

The incubator in Jesenice was established in 2000 after the municipality agreed to donate premises and arrange the necessary provisions regarding utility costs and building permits. The incubator was developed and managed by independent business development agencies, the Business Support Center of Kranj. The incubator has 886m² of workspace with additional spaces for the manager of the incubator, the development agency, conference rooms and common areas. The incubator focused on establishing a working environment for start-up businesses working in the areas of electronics, programming, telecommunications, and information technology, with the desire to start activities that might lead to a cluster of electronic and information technology enterprises. The tenants benefit from cheaper rent, Internet and phone connections, and classroom/conference areas. The services offered to the tenants are counseling,

administrative assistance, networking, marketing and promotion assistance. The Jesenice incubator employs 70 people.

This efficient incubator example shows that an approach based on high growth new starts, driven by local economic development strategy priorities, can be very successful.

SEŽANA, SLOVENIJA

Business incubator in Sežana had a different development approach, which was probably triggered by the fact that the manager of the incubator came from the private sector. Following the breakdown of “Iskra” factory of electrical equipment, and past the completion of bankruptcy process, municipality took over the ownership of the factory building. Private enterprise Sloveneta L.t.d. made a suggestion for the use of the building as an incubator that would facilitate the establishment of small and medium enterprises. Collaboration was established between municipality, as an owner of the real estate property, and the private enterprise “Sloveneta” as an executive associate, which had a contract for incubator regulation. Incubator is focused on production operations; many newly established enterprises have been formed using the former employees of the failed enterprise “Iskra”. Over 6500m² of workspace was provided, along with subsidized ground rent. Ground rent gradually increases, however there are further premiums for enterprises that generate additional employment (workplaces). Incubator supplies mutual administrative and technical infrastructure and applicability, as well as professional services. In 1997 the incubator succeeded in insuring more resources for an additional 2500m² of new workspace; incubator can currently accommodate 32 enterprises. European Union, municipalities, Ministry of Economy and the revenues from ground-rent have secured financing of the second stage of incubator expansion.

STONEHILLS, VELIKA BRITANIJA

Stonehills represents one of the biggest leading organized business environments in Europe, which also includes the business incubator structure. It was established on four hectares of unexploited industrial terrain and buildings that remained following the closing of large state enterprises in 1984. Financing of Stonehills was (covered) insured by the European Union and the Government of Great Britain. This incubator boasts a center for specialized education on premises, which offers key services to all citizens; closely tied to the strategy of local economic development, it is regulated by the company specializing in landscaping and construction, which was appointed, on contract, by the local authorities. Stonehills currently has 50 workspaces and over 300 enterprises at its premises, with different functions (activities) from furniture manufacturing to security alarm systems and computer services. Usually over 85% of the area for rent is occupied. Additional workspace is being planned on.

The case point of this large incubator demonstrates that there is a method for exploiting (utilizing) large manufacturing locations that have lost its initial function. Center for specialized training has the ability (capacity) to provide guidance for both local unemployed recruits, as well as enterprises.

UNIVERZITET YORK, VELIKA BRITANIJA

York University and the municipal authorities of the City of York have jointly established this incubator in the 1980s in order to comply with the demand for new corporations and take advantage of talented University graduates. A small private company providing professional services regulates this incubator. The company manages this incubator as a business enterprise and provides thorough support to all enterprises individually. The incubator achieves revenue (profit), which is partially used for investing into further development. There are approximately 20 workspaces whose function has been gradually varying – from a company that provided general services to a company whose work was embedded in technology. This incubator proved successful in stimulating numerous new “companies within the campus (university complex)”.

Key factor of success for interested parties was the ability of this incubator to establish corresponding objectives in regards to the quality of work, all the meanwhile granting independent company the freedom to perform all managerial tasks and work on improvements of the incubator.