

## BUSINESS INCUBATORS. EFFECTIVE MEANS TO SUPPORT PRIVATE INITIATIVE

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### Abstract:

*The Romanian Business Incubators are financed from private and public sources. The Business Incubators financed from public funds, are part of The National and Multiannual Program of Establishment and Development of Technological and Business Incubators in Romania (2002-2012). This Program is coordinated by The Agency of Implementation of Projects and Programs for Small and Medium Enterprises (A.I.P.P.SME's), and implemented by The United Nations Development Program (P.N.U.D.), Romania. The main objective of the Program is to develop small and medium enterprises (SMS's) sector in Romania, by establishing Business Incubators and by improving the efficiency of the existing Business Incubators. The small and medium enterprises selected in the Program receive grants for the acquisition of equipments necessary for starting their activity, and during the incubation period receive partial reimbursement of cost with utilities and consultancy services. Part of this Program is also the project named "Establishment and Development of Business Incubators in Romania". This project started in 2006 with three Business Incubators located in Alba Iulia (Alba), Brasov (Brasov) and Sfântu Gheorghe (Covasna). These three Business Incubators were financed by the government in partnership with U.N.D.P.. Each incubator is managed by an administrator. The first incubation cycle started with these three incubators and it included 57 companies.*

**Key words:** Business Incubator, small and medium enterprises (SMS's), profit, turnover, operating costs.

**JEL Classification:** M 13

## INTRODUCTION

Through this paper we intend to analyze the results of the Business Incubators established through the project above mentioned. Our main interest is to observe the evolution of the incubators, regarding the number of jobs created at the end of the first incubation cycle, the profit and the turnover obtained. We decided to analyze this subject because we consider that in Romania, Business Incubators are not known and therefore insufficiently exploited. Our analysis is based on information obtained from the administrators.

## 1. BUSINESS INCUBATOR – DEFINITIONS AND APPEARANCE OF THE CONCEPT

The Business Incubator is a place where new firms are concentrated. The main objective of the Business Incubator is to grow the chances of development and the survival rate of these firms, by ensuring them the building with all the necessary utilities for their activity. In the same time, the incubated firms receive managerial support and assistance services. The Business Incubator is an institution which aims to create a sustainable environment to start-ups. A Business Incubator is based on a partnership between public local authorities and the interested institution, whose objectives are to offer a comprehensive range of professional services to start-ups in areas with entrepreneurial potential.

The first Business Incubator appeared in 1952 in Batavia, New York and the process of incubation became an industry in the '80s. In Europe the first Business Incubator appeared in Great Britain. In Romania the first Technological Business Incubator was created in March 1992, with the support of The Ministry of Research and The Research and Projection Institute for

A Business Incubator can play several roles: **parenting role**, because it sustains technical and material the managers of incubated firms, **investor**, because in some cases brings equity in exchange for services provided by the incubated companies, **business club**, because the incubator searches and offers business opportunities to the incubated companies.

Indeed, Business Incubators proved to be effective means to support private initiative, and generated confidence in both state owned sector and in the private sector leading to public-private partnerships. Following this, The Agency of Implementation of Projects and Programs for SMS's (A.I.P.P.SMS's) and The United Nations Development Program Romania (U.N.D.P.) was established, The National and Multiannual Program of Establishment and Development of Technological and Business Incubators in Romania. Part of this Program is also the project named "Establishment and Development of Business Incubators in Romania". This Project is managed by the two entities mentioned above in partnership with local authorities.

The Program **Management** is composed of the The Agency of Implementation of Projects and Programs for SMS's – the national coordinator of the Program, Territorial Office for Small and Medium Enterprises – as the execution agency of the Program, The United Nations Development Program – as an implementing agency of the Program and team selected for the Program was recruited by a panel composed of U.N.D.P. representatives.

Once included in the incubator, the entrepreneurs have some obligations, for example setting up in the first year of incubation at least three jobs and maintaining these jobs throughout the entire period of incubation (three years), contracting with economic partners outside the geographic area of the Business Incubator.

As I mentioned before, part of this Program is also the project named “Establishment and Development of Business Incubators in Romania”. This project started in 2006 with three Business Incubators located in Alba Iulia (Alba), Brasov (Brasov) and Sfantu Gheorghe (Covasna). These three Business Incubators were financed by the government in partnership with U.N.D.P.. Each incubator is managed by an administrator. The administrators have selected several companies which to incubate for three years. Also these companies received trainings, consultancy, grants, spaces for offices and production area as well as other related services for increasing the efficiency

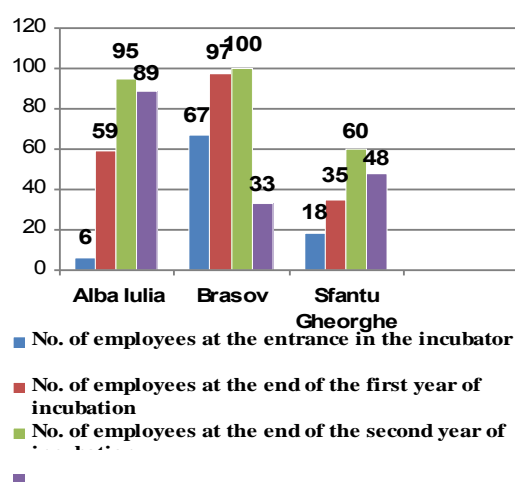
**Table no. 1. Number of employees within the incubators**

Indicator	Total firms incubated	No. of employees at the entrance in the incubator	No. of employees at the end of the first year of incubation	No. of employees at the end of the second year of incubation	No. of employees at the end of the third year of incubation
Alba Iulia	20	6	59	95	89
Bra ov	16	67	97	100	33
Sfântu Gheorghe	21	18	35	60	48
Total	57	91	191	255	170

*Source: Reports from the administrators*

### 3.1 THE EVOLUTION OF THE NUMBER OF EMPLOYEES WITHIN THE INCUBATORS

The first incubation cycle at Alba Iulia, Brasov, and Sfantu Gheorghe started with 57 companies. These companies activate in different areas such as: food, wood, automotive, rubber industry, plastics, paper/paperboard, textile, packaging industry, IT, advertising, tourism, constructions, services (consultancy, delivery, cleaning, security and protection, catering, gardening etc.), various forms of education, (training, driven school), telecommunication, radio and TV.



**Figure no. 1. The evolution of the number of jobs created through the project**

We can notice from the above chart that from entrance in the incubator until the end of the second year of incubation, the number of jobs created by the incubated firms, recorded significant increases.

The first year of incubation conducted to encouraging results regarding the hiring process of incubated firms. In Alba Iulia the number of employees increased by almost 900%, in Brasov about 45% and in Sfantu Gheorghe, the number of employees doubled from the entrance of the firms in the incubator until the end of the first year of incubation. Positive results were recorded also at the end of the second year of incubation, but the growth rate is slower than in the first year of incubation. As a consequence of the economic situation, at the end of the third year of incubation activity, we can notice from (fig no.1) a decrease in the number of employees, the most visible slowdown, being registered in Brasov. However at the end of the first incubation cycle, the

project lead to the following results: 170 jobs created within the 57 incubated firms, These results allows us to affirm that the incubation cycle finished with three jobs created per company incubated. This is an encouraging result, given the fact that 2009 was the year of layoffs in the business environment in Romania. The areas of activity that generated the most jobs within the incubated companies were: services (consultancy, metrology, projection, mailing, cleaning, security and protection, technical analysis, thermal rehabilitation, organization of events, gardening and landscaping), food, wood industry, constructions.

### 3.2 The Analysis of the Profit and Turnover of the Business Incubators

**Table no. 2. The evolution of the turnover and profit (Lei)**

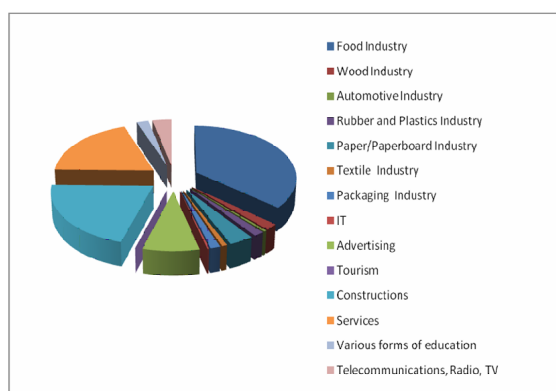
Business Incubator	At the entrance in the incubator		At the end of the first year of incubation		At the end of the second year of incubation	
	Turnover	PF	Turnover	PF	Turnover	PF
Alba Iulia	833.474	207.876	8.930.211	619.931	9.676.931	565.669
Bra ov	649.179	-14.099,3	11.341.236	165.960,29	13.209.189	239.367
Sfântu Gheorghe	818.908	102.862	3.471.839	245.753,57	4.699.891	769.430,3

**Table no. 3. Turnover and profit at the end of the second year of incubation per areas of activity (Lei)**

	Areas of activity	Turnover	PF
1	Food Industry	12.167.671	755.397
2	Wood Industry	626.463	175.388
3	Automotive Industry	147.185	3.105
4	Rubber and Plastics Industry	521.310	-11.395
5	Paper/Paperboard Industry	1.187.123	90.706
6	Textile Industry	271.735	-17.861
7	Packaging Industry	474.228	282.573
8	IT	99.798	-33.898
9	Advertising	2.751.669	469.315
10	Tourism	0	0
11	Constructions	6.990.168	424.425
12	Services	6.433.033	413.688
13	Various forms of education	714.492	97.420
14	Telecommunications, Radio, TV	1.139.067	263.759
	Total	33.523.942	2.912.622

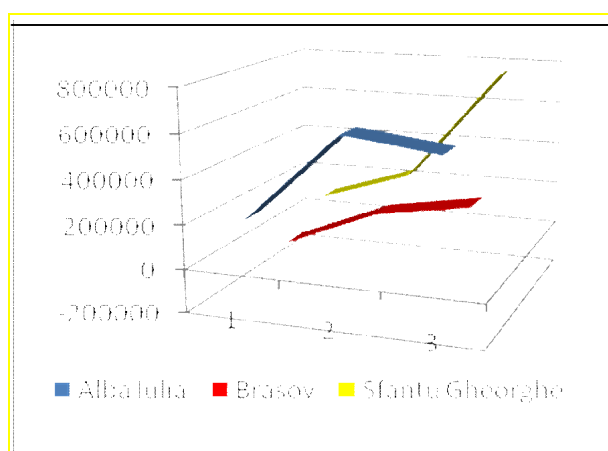
*Source: Reports from the administrators*

From (tab. no. 2) we can observe that the total turnover of the incubated firms, has grown visible in the first two years of incubation. The results of including the companies in the incubator are significant after the first year of incubation when the analyzed indicative pointed out very high values: the total turnover of the incubated firms in Alba Iulia has grown with almost 970%, the Business Incubator from Brasov indicates the highest percentage – about 1600%, and in Sfântu Gheorghe the total turnover of the incubated firms after a year of activity has increased with almost 300%. The Business Incubator from Brasov has developed activities that conducted to a constant growth of the turnover, in the two years of analysis. The progress is due to firms with activities in areas such as: food industry, construction, services (consultancy, projection, mailing, cleaning, security and protection, technical analysis, thermal rehabilitation, organization of events, gardening), publicity (table 3).



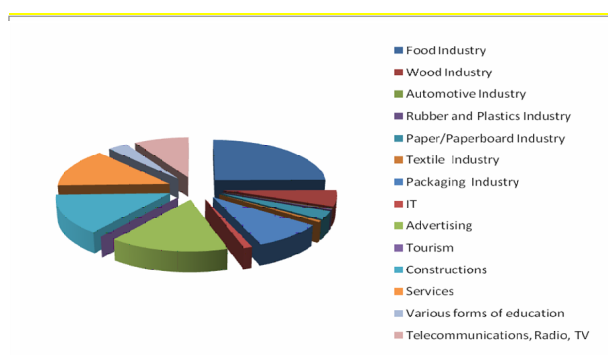
**Figure no. 3. The turnover of the incubated companies at the end of the second year of incubation per areas of activity**

These entities obtained a turnover exceeding 28,000 Lei at the end of the second year of incubation. The turnover is representing about 85% of the turnover obtained at the end of the second year of incubation per areas of activity. (tab. no. 3 and fig. no. 3).

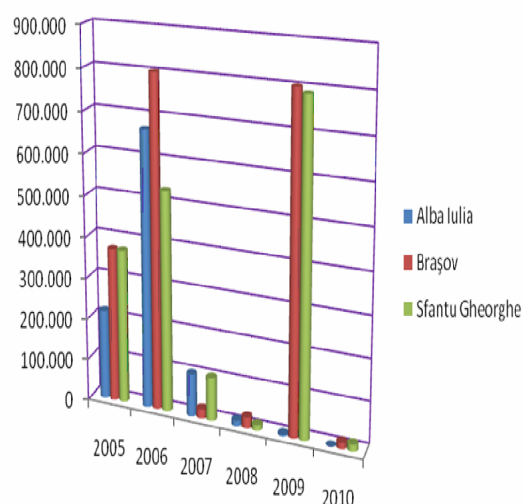


**Figure no. 4. The general evolution of the profit per incubator**

As can be seen from (tab. no. 2 and fig. no. 4), despite the fact that at the beginning of the incubation cycle the Business Incubator from Brasov started with negative values, at the end of the second year of activity, registered a profit per total incubated companies, of about 240.000 Lei. The most profitable companies were the firms incubated in Sfantu Gheorghe, where the profit increased with almost 600.000 Lei. The most profitable areas of activity were: food industry, constructions, publicity, and services (consultancy, projection, mailing, cleaning, security and protection, technical analysis, thermal rehabilitation, organization of events, gardening). The less profitable areas of industry were textile industry, IT, rubber, plastics industry, as can be noticed from (table 3 and figure 5 ).



**Figure no. 5. General evolution of the profit per areas of activity at the end of the second year of incubation**



**Figure no. 6. The evolution of the operating costs per incubator**

The operating costs of the Business Incubators are composed of grants for equipments, for establishments, utilities and specialized services, rehabilitation, for renovating the buildings were the Business Incubator will operate, grants for workshops, seminars, travel studies, for promoting the Business Incubators activity. From the above chart it can be noticed that these cost are higher in the pre incubation period because in this period are involved costs for renovating the buildings. From (fig. no. 6) we can observe that the Business Incubator from Brasov involves the highest operating costs in the pre-incubation period, followed by the incubator located in Sfantu Gheorghe and the incubator from Alba Iulia registered the slowest costs in the pre incubation period.

## CONCLUDING REMARKS

The Business Incubator is an institution which aims to create a sustainable environment for start-ups. The first Business Incubator appeared in 1952 in Batavia, New York.

A Business Incubator is based on a partnership between public local authorities and interested institution. Following, The Agency of Implementation of Projects and Programs for SMS's (A.I.P.P.SMS's) and The United Nations Development Program Romania (U.N.D.P.) started The National and Multiannual Program of Establishment and Development of Technological and Business Incubators in Romania. Part of this Program is also the project named "Establishment and Development of Business Incubators in Romania".

This project started in 2006 with three Business Incubators located in Alba Iulia (Alba), Brasov (Brasov) and Sfantu Gheorghe (Covasna). These three Business Incubators were financed

by the government in partnership with U.N.D.P.. Each incubator is managed by an administrator. The administrators have selected several companies whom to incubate for three years. Also these companies received trainings, consultancy, grants, spaces for offices and production area as well as other related services for increasing the efficiency of the companies.

From the analysis conducted we've noticed that the total turnover of the incubated firms, has grown during the incubation period, especially in the first two years of incubation. The most profitable areas of activity were: food industry, constructions, publicity, and services (consultancy, projection, mailing, cleaning, security and protection, technical analysis, thermal rehabilitation, organization of events, gardening). The less profitable areas of industry were textile industry, IT, rubber, plastics industry, as can be noticed from.

All three Business Incubators are a model for the business environment. These Business Incubators have incubated in the first cycle of incubation developed through the Project "Establishment and Development of Business Incubators in Romania ", 57 companies. These companies realized 170 jobs at the end of the third year of incubation. Despite the current economic situation, the owners of these 57 companies have enough commands allowing them to cover the expenses and also to obtain profit.

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