1. Executive Summary

This paper was based on a desk review of the literature relating to best practice in public policy supporting business incubation, supplemented by four national case studies covering Brazil, Malaysia, New Zealand and South Africa. These country studies were prepared through engagement of stakeholders, site visits and other sources of primary and secondary information collection.

In the context of the study, we focused on best practice in policy development, meaning that public bodies should identify clear objectives and goals to be achieved within the resources available and take steps to measure and assess what has actually been achieved, allowing changes to overcome unexpected barriers, as well as to identify and disseminate best practices to improve overall performance.

The paper sets out a clear definition of business incubation and locates it as one of several potential initiatives to provide direct support services to businesses. In addition the impact of all types of SME support services is affected by the wider environment for business development which is influenced in part by legislative and administrative policies of government. While incubators can be used to help overcome some of the environmental barriers (i.e. overcoming bureaucratic hurdles) and can act as pioneers in improving the business environment, they are no substitute for necessary wider change to the system that governments are expected to undertake.

The services available within business incubators vary in relation to the specific objectives of their establishment, the resources available, and the wider environment. Within this caveat we offer a description of pre-incubation, incubation services and post incubation support to enable the reader to clearly understand how incubation is differentiated from other SME support programs. The definition indicates the high cost of providing incubator services and suggests this is only justifiable in relation to the incubator helping to achieve high growth businesses with low failure rates, unless there are strong social objectives that have to be taken into account (i.e. helping socially excluded groups to launch businesses).

Governments have used incubation as part of a range of objectives to bring about change. Evidence suggests that achieving objectives is only likely to happen if business incubation is part of a wider transformation program. Within this context we give examples of incubation used to encourage transfer of research and development into innovative new production, to introduce ICT based activities to raise productivity in targeted sectors, to tackle industrial restructuring; to enable new industries to be created or existing industries to be reinvigorated, and as part of measures to include deprived communities into the mainstream of new business opportunities.

We review the funding approaches to business incubation, suggesting that it is more effective to provide less than 100% of funding needs, especially after an initial launch period, ensuring some commercial income and matching money from other sources.

As for clients funding needs, in some cases shortage of finance is a significant drag on enterprises potential to succeed and grow rapidly. In many cases incubators have established with public finance seed capital funds, guarantee funds and/or build significant networks with business angels and venture capital funds to help overcome the financing problems of their clients. However, often the problem lies in a mismatch between the supply and demand side and the need to improve their interaction, which can be promoted by the incubator.
In most cases direct ownership by government ministry or a university has not proved to be a successful approach. Whereas mixed ownership structures (public, private) encourage incubators to make riskier direct investment in their clients and thus have proved to be more efficient. A strong business mindset and/or disciplines for a public benefit with good networking of the incubator and its clients are then important considerations in selecting the governance model.

Having specified the policy objectives of supporting business incubators it is critical that a good monitoring and appraisal system is established to ensure that these relatively expensive facilities achieve results that justify their support in relation to alternative methods of SME development support. The systems should not only enable this cost-benefit analysis to take place, they should also enable best practice to be identified and disseminated within the business incubation network, and identify critical unexpected barriers to be overcome to achieve success.

2. Best Practice in Public Policy Development

The purpose of this report is to inform the debate about the relevance of Business Incubation to the public policies of support to small and medium sized business (SME), which in turn is part of public approaches to raising the performance of their economies. The issues we raise here are relevant to national, regional and local government and those seeking to influence their policy programs.

Specifically in this paper we address the policy objectives behind public sector support for business incubation, exploring the different ways in which the concept has been used to achieve different outcomes and identify from this the current best practice in policy formulation and implementation for the different objectives of public policy.

In framing this paper we are seeking to identify the key issues in a “best practice” approach to policy making in business incubation and SME development more widely. Increasingly best practice is being used to guide public policy making. This term is used to refer to two different definitions of public policy development. For some it is defined as “results oriented decision making based upon empirical evidence.” For others “The term best practices relates to successful initiatives or model projects that make an outstanding, sustainable, and innovative contribution to the issue at hand.” These two definitions of best practice are related to how government monitors and evaluates the impacts different policies achieve, relying on “high quality objective evidence about what works (Canon and Kilburn, 2003).” Other evaluations of impacts achieved are more impressionistic and rely on experiential knowledge as well as on more rigorous evaluations.

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