

Business incubation

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Business incubation is being adopted worldwide as an effective means to promote and support small and medium scale enterprises (SME) in their efforts to innovate and commercially exploit indigenously developed technologies. It has become a crucial driving factor for the growth of start-up and newly established firms. This article reviews the basic concept of business incubators and discusses UNIDO's various programmes in promoting the concept. It also examines the Japanese experience in particular.

Introduction

The globalization of markets continues to widen opportunities for small and medium scale enterprises (SMEs) in developing countries, but it also implies that entrepreneurship in these countries urgently needs encouragement and strengthening. Management and technology must be promoted so that product and process technologies of existing SMEs can be upgraded and rationalized and new ventures can flourish. Development so far has been based largely on foreign investment or on government intervention, either through state-owned enterprises or directly where recession has led to high unemployment. Clearly, local human resources will have to be developed.

In most developing countries, policies to promote SMEs so as to mitigate poverty and create employment receive the highest priority.¹ As we have seen in the dramatic development of the communication and information technology industries, an economy flourishes when new businesses are allowed to enter the market.² However, as Table 1 shows,

even among developed countries, survival rates of companies are not very high. In most OECD countries, half of all new firms die within five years of establishment. Therefore, it is important to invigorate those SMEs that have great potential for growth by providing them with assistance during their infancy.

This is where the system of business incubators comes in. Such a system can nurture start-ups and newly established firms by providing services and office space on a shared, affordable basis. However, at its core are the financial, marketing and design support and the managerial training it gives to the emerging entrepreneur. Another by-product of a business incubator is the internal dynamics that come from working together in a shared physical space. The joint and cross-discipline learning that takes place and the opportunity to form business networks and contacts are also critical to the launch of successful ventures.

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