

# BUSINESS INCUBATORS AS INSTRUMENTS OF SUPPORT TO THE REGIONAL COOPERATION

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**Abstract**—Business incubators are an instrument of integration plans of the regional development through actions at the local level. The mission of business incubators is to successfully overcome the obstacles and difficulties of the start-up companies in their most vulnerable initial phase of establishment and initial development. Advantages of establishing a business incubator, among other things, are reflected in various forms of support to the economic development of the country: a more successful transition to a market economy, successful mastering of technology, improving relations with the business environment, developing innovative business climate and the like.

**Keywords**—business incubators, small and medium-sized enterprises, entrepreneurship, regional cooperation.

## I. INTRODUCTION

PROMOTION of entrepreneurship plays a vital role in improvement of competitiveness of the small businesses. Among the many proposed solutions, business incubation is one of the most effective instruments to help entrepreneurs to start new business and the development of the SMSE sector.

Support institutions – business incubators have proven to be as effective instruments to help entrepreneurs to start their business, as well as the young enterprises.

## II. ENTREPRENEURSHIP AS A BASIS FOR SOCIAL PROGRESS

Entrepreneurship is considered as the basic cell of the economy and the largest potential of economic development. In it can be seen the future of successful development of macroeconomics.

For the countries in transition is of crucial importance to create institutional assumptions for the development of entrepreneurial business models and their implementation in terms of decline in economic efficiency, high unemployment and shortage of certain capital for investment purposes; and the introduction of the quality system aimed to better market positioning and strengthening of competitive abilities [1].

Today's economic theory recognizes that in addition to natural resources, capital, labor and technology, entrepreneurship is the most important factor of success in business. In this regard, there's a clear change in focus on entrepreneurship as a major source of economic development. On the basis of this approach, summarizing the main mechanisms that affect the national economic growth, there has been developed the GEM model (Figure 1). The main argument of this model is that this national economical growth is a function of two parallel flows of interdependent activities [2]:

- Activities in the sphere of large existing firms,
- Activities in the sphere of entrepreneurial economy.

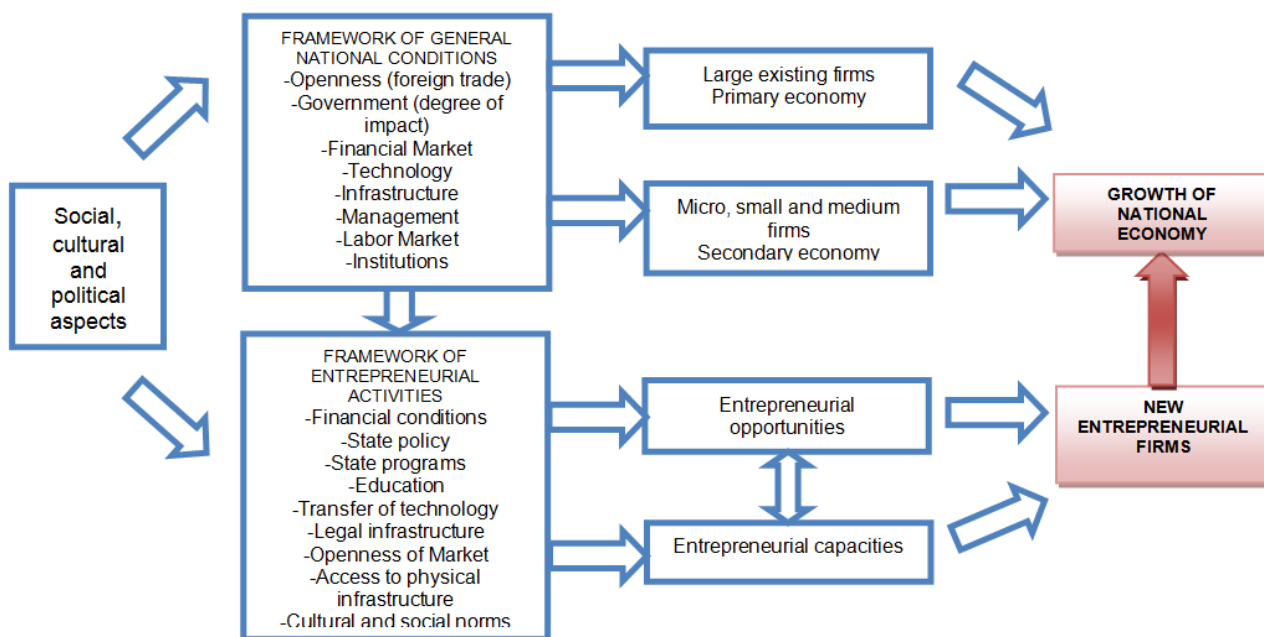


Fig. 1. GEM model [2]

The EU experience shows that the best way for the development of the entrepreneurship and SMEs in countries which are in transition should be consistent with the integral approach that has three hierarchical levels [3]:

- Strategic level (policy making)
- Institutional level (support institutions)

The level of enterprise (entrepreneurial and business entities)

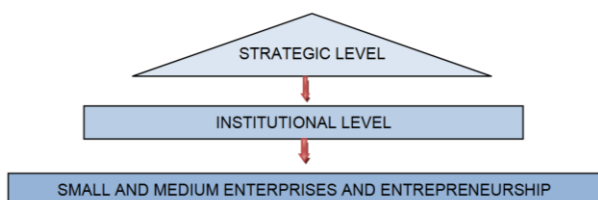


Fig. 2. Integrated approach to the development of the SMEE sector [3]

The aforementioned levels create a pyramidal structure of SMEs development in which the strategic level is presented as the highest priority and “located” at the top of the pyramid. Institutional level is located in the middle and presents the link between the policy-makers for the development of the SMEs and entrepreneurs to whom the services of these institutions are intended. The third level is the basis of the whole structure, these are the actors of the SMEs, whose performance, conduct, efficiency and inefficiency are reflected in economic transformation. This structure is harmonious only when there is an overall development, mutual acceptance and operational cooperation [3].

Promotion of entrepreneurship has a vital role in improvement of competitiveness of small businesses and

improvement of employment situation. Most countries in the transition think that the SMEs are crucial for industrial restructuring and an important element of the reform process. In this regard, the governments of the countries in transition play an important role in the development of services to support SMEs. Such services are indispensable regarding to essential role of SMEs for growth and transition period. Some of these institutions are being established. However, some institutions have acquired the extended experience in their ups and downs that need to be analyzed. Experiences need to be exchanged among similar organizations and to serve as guidelines for future development. It is generally recognized that these institutions also support business start-ups and generally there is a lack of entrepreneurial skills and the need for the human and financial resources that should be efficient.

The idea of business support centers, is not new, but, by the time they got new forms. In essence, all the elements are characterized by a common sign – **business incubation**.

### III. BUSINESS INCUBATORS AS SUPPORT TO THE SME SECTOR

According to Canadian professor Lawrence Hjuik, incubation is each comprehensive program of business support to small and medium-sized enterprises, and incubator is a building for the development of that program, which includes monitoring, mutual connection, administrative support and flexible working space [4].

Business incubators are instruments to support entrepreneurship, in order to reduce unemployment and establish an increasing number of new companies. Business incubators are mainly aimed to solve problems

of local economic development through advancement of entrepreneurial basis, in terms of both quality and quantity. "Incubation" in this context means ensuring of good conditions for starting new businesses and achievement of business ideas, innovation to encourage the development of entrepreneurial spirit, as well as taking concrete steps for preservation of such conditions and capacities required for the implementation of the ideas. Business incubators facilitate the provision of direct support to companies that have already begun to work, in the period when they're the most susceptible to failure, and thus directly affect the degree of success of these companies [5].

The origin of the concept of business incubators can be recognized in the industrial countries of the West during the seventies and eighties in the last century.

The first incubators in Europe were established in the beginning of 80's in England and Germany. An example of Berlin is interesting where in November 1983, the first business incubator started its work in Germany – Berlin Center of Innovations and New Enterprises. [6]. University of Berlin is based on experience in the field of technology transfer aimed to promote cooperation between small and medium-sized enterprises (SMEs) and universities.

The main reasons for the establishment of business incubators were:

- To promote the transfer of university research results into practical use through support of scientists in establishing their own businesses;
- The development of economic structure of the Berlin city encouraging the establishment of new and innovative companies with new products and services;
- Inclusion of the innovative potentials of urban research institutions in regional economic development;
- Creation of new modern jobs in new enterprises, as well as in existing SMEs through (indirect) use of innovative impulses.

During the industrial crises of the 80s in Italy appeared BIC (Business Innovation Centre) [7] which is considered the best type business incubator known as „5 and“, is based on:

1. learning
2. inventiveness
3. entrepreneurship
4. innovation
5. internationalization

In all studies of business incubators is mentioned their relationship with scientific research organizations, and a large number of them are focused on spin off companies, and the target groups (as potential entrepreneurs) are not only researches but also students of final years.

The most important services provided by capacities for incubation include organized access to expertise, experiences, consulting services, advices and mentorship in key initial stages of life of the enterprises.

Access to other business networks and groups also is an important element of these capacities. The offer of physical premises and these services to entrepreneurs will increase the likelihood for success of the company in relation to the companies which operates independently.

A business incubator is a kind of business association whose purpose is to support the establishment process of successful new businesses through the provision of certain services, which may include: space of incubator, shared services (secretariat, office equipment, accounting, entrepreneurial counseling, financial advices, etc.), marketing and networking. Incubators can be distinguished from each other according to the way they provide services, by the organizational structure, as well as by the type of the clients.

Business incubators present an instrument of integration plans for the development of region through actions at the local level, allowing recovering of the economy through:

- introduction of new technologies,
- advancement and development of small and medium-sized enterprises and private entrepreneurship,
- incentives and development of innovative knowledge and activities,
- solving the problem of unemployment through the employment of the non-active population and the creation of conditions for the engagement of redundancy,
- promotion of craft activities and catering,
- provision of required funds,
- enhancement of technical and technological level of equipment of the craft and catering activities and
- development and revival of arts and old crafts.

The objectives to be achieved are:

- encouragement of successful establishment of the small and medium-sized enterprises,
- creation of new jobs,
- increase of survival percentage of the start up enterprises,
- encouragement in development of the entrepreneurial spirit and way of thinking.

The direct goal of all business incubators is to support the establishment and development of small and medium-sized enterprises. Behind this general goal there are a number of specific objectives which differ from incubator to incubator, and in most cases these are new job creation, diversification of the local economy, enhancement of competitiveness, reduction of mortality rate of new business ventures, reduction of brain drain...

The main task of business incubators is to provide our tenants the business environment which will allow them to successfully overcome the initial, and also the most critical phases in their business, by providing the necessary tools for growth and development.

These tools are:

- consulting,
- manufacturing equipment,

- office services,
- technical support,
- entrepreneurial training,
- preferential prices of rents of the business space.

The process for the establishment of the business incubators in Serbia started with the first initiatives 2003rd, and the momentum took the formation of the first business incubator in Knjaževac, 19.5.2005.

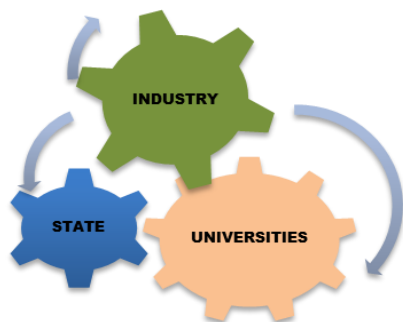


Fig. 3. Cooperation: State-universities-industries.

Advantages to establish business incubator centers, among other things, are reflected in various forms of support to the economic development of the country: a more successful transition to a market economy, successful mastering of technology, improvement of relations with business environment, reduction of costs and business risk, development of innovative business culture, increase of competitiveness...

The establishment and functioning of the incubator centers contribute to the intensification of economic activities, transfer of knowledge, implementation of technological achievements, development of innovation, education of professional staff and their putting into operation to develop entrepreneurial concepts.

Business incubators are particularly attractive in countries in transition, as they can help to reduce barriers to pooling know-how and the reduction of fixed costs.

The importance of establishing business incubators in Serbia arises primarily from the need to rapidly invest in the development of the entrepreneurship in all aspects (legislative, financial, institutional, educational...), and thus to create opportunities to support every entrepreneur with a good idea, especially in the phase

when starting the business and when the greatest help is needed.

In the restructuring process of our economy, there is a surplus of office space, as well as of equipment and qualified manpower that are an opportunity and, with a good organization at the regional level, are organized centers for the development of entrepreneurs, especially the business incubators and thus is accelerated the local development. What is particularly important is that in our country there are a large number of research institutes and universities, which at the moment are the repositories of knowledge, and therefore, the key drivers of development.

Practice has shown that business incubators must not necessarily be the newly erected buildings. Particularly in developing countries, there are cases where the old factory halls, with the all infrastructure, with fewer investments can create business incubators. In Serbia, there is almost no municipality where there are no such facilities. However, it seems that due to these opportunities, which brought us a long-term economic crisis and bad privatization, we do not use enough the development of business incubators which present an area where local governments and institutions can provide high added value. Help to new and small enterprises to overcome their initial period through a business incubator is a great opportunity to support new job vacancies. In this regard, a new chance is provided to local agencies, institutions and governments to demonstrate that they are willing to take concrete actions and support the entrepreneurs. Experience shows that this type of help can bring real benefits to the local economy, which will in future largely rely on the operations of small and medium-sized enterprises [8].

The key stakeholders are the most important in the establishment stage of business incubators. In fact, as to the legal form in the establishment of business incubator, there are no standard legal regulations. However, in terms of business incubators, the specific state policies often played an important role, for example, regional development policy or the development of high technology sector. Therefore, it's necessary to create a stimulating environment through establishment of institutions and the provision of incentives for the establishment of enterprises and economic development.

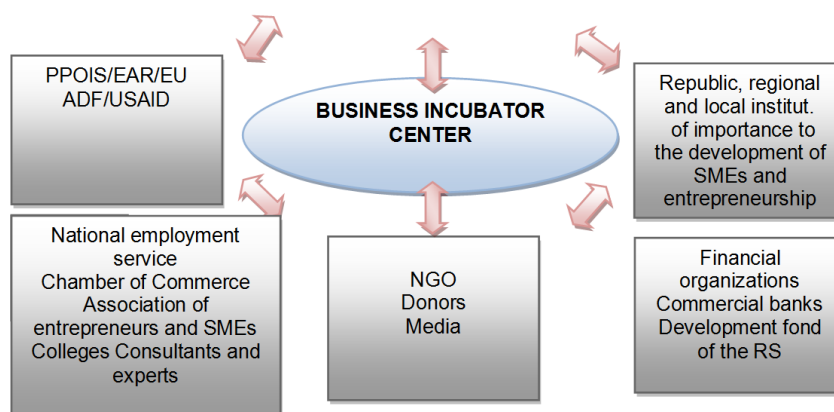


Fig. 4. Network of key stakeholders in Serbia [9]

Business incubators, as legal entities, often can be established in the following organizational framework:

- The non-profit business incubator (classical incubator form) which operates with the help of the community or foundation of economic development;
- The private or profit incubator (most often are the era incubators of the “new economy”) which is usually in the ownership of investment groups for investment of risky and initial capital for real estate development;

Business incubators generally, from legal point of view, are the joint stock companies. In hitherto practice, the state was the main shareholder in most business incubators in Western countries. There are few many privately owned incubators, although in many cases are formed partnerships of the private and public sectors attracting major companies as participants. Other shareholders usually are agencies for economic development and universities. In most developing countries, business incubators are likely to be state-owned. Experience in Western countries suggests that business incubators should charge rent at a price higher than the market in order to create profit as investors demand from the private sector, and for this except the existing opportunities there is a little or no space in the regions of developing countries.

#### IV. CROSS-BORDER COOPERATION WITH CROATIA

For the period 2007 to 2013, the European Union has prepared a unique Instrument for Pre-Accession Assistance (IPA) in order to finance the program among the EU member countries of candidates and potential candidates for the membership in the EU.

**The overall objective of the program** is to encourage cross-border cooperation to promote regional development in a socially and environmentally sustainable manner while at the same time promoting trans-boundary good neighborhood relations. Both countries have jointly developed a program respecting the principle of partnership. On 20 December 2007, the European Commission has adopted a **programmatic document** for *IPA Cross-Border Program Croatia-*

*Serbia 2007.-2013*. The total **duration** of the program is since 2007. - 2013, and IPA’s contribution for both countries amounts to 5.4 million Euro for the first three years (2007.-2009.).



Fig. 5. Cross-border program logo of Serbia and Croatia [10]

#### **Priority 1: Sustainable socio-economic development**

– to promote the development of cross-border areas through the beneficial use of the economic potential of the region, in synergy with acceptable and appropriate use of natural resources while ensuring the preservation of regional bio-diversities.

Priority 1 is achieved through the following objectives:

- promote business cooperation, increase cross-border trade, develop labor market mobility, cross-border institutions for research and development and joint economic planning
- encourage the development of tourism on the basis of cross-border regional identity and the natural and cultural resources of trans-boundary areas
- protect and safeguard the natural resources of trans-boundary areas undertaking joint measures and increased public awareness
- promote good neighborhood cross-border relations among local communities

Priority objectives will be realized through the following measures:

- **Economic development** – Encourage regular interaction among entrepreneurs from all cross-border areas: „business-to-business” network; development of support services to small and medium entrepreneurs and common access to the same; joint marketing and promotion of national and EU markets; promotion of innovation through

cooperation of small and medium entrepreneurship including education and organizations engaged in research and development; exchange of selective investments in business infrastructure. It is expected that measures of economic development to be diversified through support for development and improvement of products and services in the tourism industry; integration of cultural heritage and living environment in products of the tourism; joint marketing of these products. Improve the knowledge of employees in tourism, culture and agriculture.

- **Environmental protection** – This measure will increase the awareness-raising activities on environmental issues and joint actions. Furthermore, measures will help the development of efficient systems and preparedness in case of emergency related to flood prevention and control; trans-boundary cleaning, food safety and health issues. The measures will also encourage the development of joint strategies for processing and reducing the amount of waste (collection, purchase of PET packaging, glass, paper, old medicines, etc.). It will encourage a large number of measures, which resulted in cleaning and restoration of abandoned/damaged locations.
- **“People-to-people”** – This measure will initiate contacts, communication and cooperation among local communities and organizations/agencies of local communities of the cross-border areas, particularly as support to women and specific groups (young unemployed people and people with disabilities), local democracy and civil society development.

#### 4.1. CB NET program

Cross-border cooperation between our country and Croatia is achieved through the IPA and CB Net projects, in cooperation with institutions and incubators.

Cooperation was initiated by Business Incubator of BIOS Osijek, Osijek City, Open University of Subotica and the City of Subotica with the aim of sustainable economic development of border parts of the neighboring countries.

Autochthonous products, souvenirs, local delicacies, jewelry, children’s toys, ornaments and unique gifts are only part of the product that may be presented or purchased at the web-shop CB NET (<http://cbnet-shop.com/hr>). Web-shop is a result of international cooperation of small and medium-sized businesses of Croatia and Serbia.

The project is funded by the European Union – IPA Program, but technical and promotional support through free web-shops for all interested entrepreneurs from the counties of Osijek-Baranja and Vukovar-Srem including and Vojvodina.

All entrepreneurs of aforementioned areas can be completely free of charge and in a very simple way, by means of internet, to launch their products and offer them to a general public. With the opportunity to present

their own production, the entrepreneurs are enabled free promotion and advertising, in order the products to be found faster and easily by the interested buyers. The specificity of this web-shop lies in the fact that it contains a number of categories in which products can be offered, and since it’s concerned to small and medium entrepreneurs – most often are offered very interesting products which are almost over and there are no commercially available.

The general objective of CB NET project is a sustainable economic development of the border areas by using the economic potential of the region.

The specific objective of the CB NET project is to increase business cooperation, trade exchange, competitiveness and export of companies in the border region, using modern technology and specific training.

#### Activities:

- Feasibility Study
- Handbook for small exporters
- Training on business over the internet
- 4 thematic workshops
- Web platform
- Web Promotion
- Advisory services
- 4 fairs in the region

#### Education in business over the internet:

- The legal framework for export to Croatia
- The legal framework for export to Serbia
- E- Commerce in Croatia
- E- Commerce in Serbia
- How successfully to design a product
- Internet promotion and marketing
- Guerrilla marketing for small exporters
- European Business Competence Licence (EBCL)

#### Thematic workshops:

- Web marketing
- The ability to use a web platform
- How to sell online through the internet
- Organization use in clusters

#### The project is aimed to:

- Small and medium-sized enterprises in the regions
- Potential entrepreneurs – all those who want to start their own business

**The total project cost is 299.946,87 euros, of which 146.518,50 euros belong to the Croatian side.**

Table 1. Financial structure of the Croatian side.

<b>EU –IPA</b>	107.808,31€
<b>Osijek City</b>	23.421,61€
<b>BIOS</b>	15.288,50€
<b>Σ</b>	<b>146.518,50€</b>

#### V. CONCLUSION

In order to successfully encourage the development of small and medium-sized enterprises, successful entrepreneurial forms, it is indispensable to create an adequate regulatory system, assumptions and developed

market system suitable for the development of this segment of the economy. There require the adequate economic policies and incentive measures for the implementation of investment ventures, directed towards the development of this segment of the economy. The hitherto development of small and medium-sized business, their number, achieved revenue, number of employees and contribution to economic growth justify these mentioned needs. After all, the strengthening of the Serbia's entrepreneurial economy is compatible with the efforts of the EU particularly to pay a maximum attention to the development of SMEs and adoption of Acts of small businesses and enter the rules and principles for action in this sector.

From the above it can be concluded that:

- Establishment and functioning of business incubators contribute to intensification of economic activities, transfer of knowledge, application of modern technological achievements, development innovation, trainings of professional staff putting them in function to develop entrepreneurial conceptions.
- The most critical phase of the business is the operation commencement, respectively the first two or three years after the establishment.

Under conditions of limited resources and inadequate business environment, for the commencement of business incubators there is a need to an adequate managerial, technological and infrastructural support.

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