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ECONOMY DEVELOPMENT MANAGING THROUGH SMALL ENTERPRISE (BUSINESS) BREEDING

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Abstract

All over the world, for almost three decades, they have been working intensively on development of micro, small and medium enterprises which, in turn, have proved to be a good support to the economy development. One of the modern ways of giving support to the economy development are incubators comprising concentration of everything required for development of a modern business (enterprise), from its early beginning till its becoming completely independent. Business incubators (i.e. Incubator Centers) are a tool of the economic development policy. Countries with developed economies have known and accepted such centers existence and they are given full support by the state, regional and local communities. Opposite to the developed, countries undergoing the market re-structuring are still unaware of how important are the incubator centers and that is why efficiency of this development instrument is pretty conditioned, i.e. questionable.

Keywords: incubator center, legislature, economic development

1. INTRODUCTION

Entrepreneurs' incubation support has stimulative influence on those making the decision to start a business, their operation & survival in business, and helps in realisation of a good business idea. Thus the main business incubator effects are: in more rapid and easier starting, more easier access to

financial sources and creditors in the start-up phase; advisory and educational assistance to newly established companies; easier access to domestic and foreign markets by enabling fast connecting and development, etc.

In addition to the effects imposed on the enterprises, one can expect certain effects on the local, regional and wider community. Among the major effects there may be: VAT-

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based income for the municipality, region and republic; newly opened jobs; income made on personal income of the newly employed labour; faster community development, etc.

Potential beneficiaries of a business incubator may be: entrepreneurs, newly established micro and small enterprises, as well as the cooperatives and/or cooperative organisations performing the registered activity for longer than a year, and the existing rapidly growing enterprises oriented towards the business process innovation and new technologies which, applied by the enterprises performing their registered activity for not longer than a year, to support their rapid development and increase the number of employees.

2. ABOUT BUSINESS INCUBATION

Business incubation through small enterprise breeding is in direct relation with the local and regional development. One of the major economic development target groups on this levels is new business initiation and entrepreneurship promotion.

Business incubation is a process of dynamic development intended to initiate development of economies, especially and primarily the local and regional ones. This process minimizes number of the enterprises ruined in the first (start-up) phase of their life cycle. The start-up phase of an enterprise is the most difficult phase for its business operation and also the phase in which the enterprise is most easily hurt due to the reasons resulting from: lack of professional experience, lack of knowledge, inadequate technology, lack of financial sources for investment in production and development, having no access to any credit source, foreign capital, etc. Percentage of the enterprises ruined in these circumstances, is approx. 80%, while in business incubation the percentage is about four (4) times lower i.e. 20% approx. Also, entering business incubators, i.e. being "incubated" enables faster growth and development of the enterprise itself and, its direct influence on the employment rate increase and the entrepreneurship idea realisation.

Last 30 years were significant by an increased number of business incubators recorded in many developed countries and,

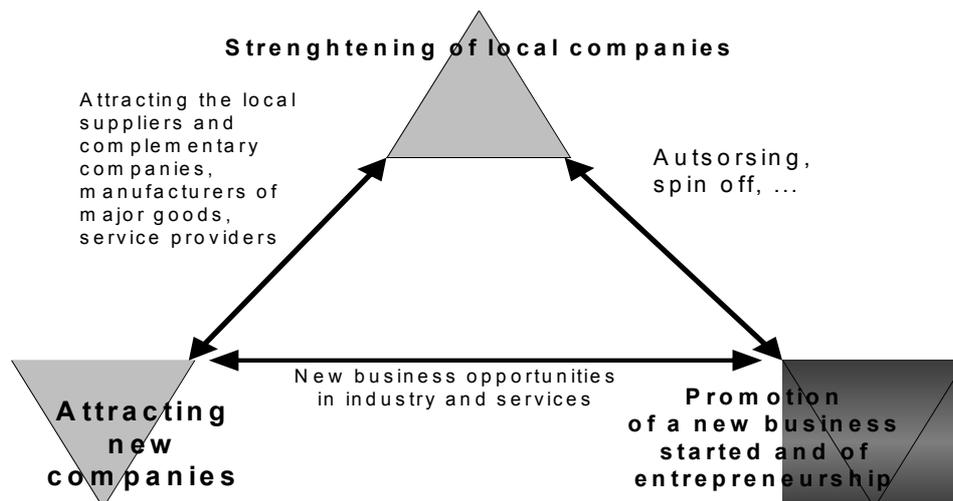


Figure 1. Target groups of Local Economic Development [13]

also, by the first positive steps made in those less developed countries.

For example, Germany had its first center established in 1983, and now, there are more than 200. In the USA - there are over 500. China was the first communist country that understood the importance of the centers for development, so that they have about 70 centers there. Through its entrepreneurship and innovation centers (European Business and innovation Centre Network) EU, is giving support to over 180 business centers in EU member-countries.

However, satisfactory development incubators operation requires support and development of agencies for regional development. Incubators should be based on partnership of the private and public sectors, including everyone interested in

development of economy - from national to local and individual level.

This means that countries in development should understand the importance of the support given to small enterprises and also to have their activities oriented accordingly, and especially in the part related to establishment of institutions for development and support of newly established small enterprises. As a rule, even these organizations are short of experience since they are also in their initial (start-up) phase, having no certain knowledge applicable in practice, and that is why they should base their activities upon the experience of the developed countries and also to be capable of situational adjustment according to the existing economy (commercial) and other circumstances.

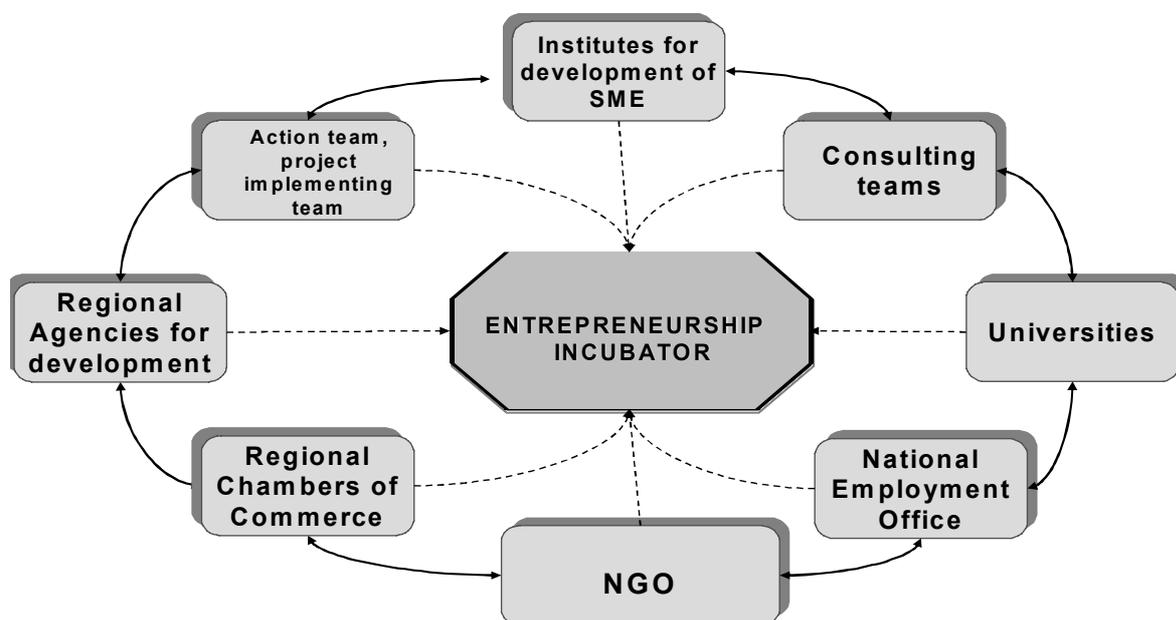


Figure 2. Composing elements for functional operation of small enterprise incubator

3. FUNCTIONAL OPERATION HOW DO THE SMALL ENTERPRISE INCUBATORS OPERATE

Economic development in the non-developed countries, subject to the pressure of imposed by globalisation and transition resulted in even worse conditions, while the privatisation and restructuring process in the public and state companies was the cause of drop in production and firing large number of workers.

More vital economies and better - conciped economies in transition needed 10-15 years to overcome the transitional depression and, finally, to get back to the initial positions they had in 1990-s, when they started the proces. Economy of Serbia and other similar economies it will take much more time because of the pretty low Gross National Product (GNP) - presently at the level of about 50% only of the BNP at the beginning of the 1989.

Transition processes in their initial phase, through business systms restructuring and privatisation, are generally causing extremely high unemployment and indication of the need for such organisations.

In such context and aiming to faster and more effective growth, those who decide on the economic policy should create the environment friendly and favourable for the SME development while, on the local level - they should support such development offering their institutional, administrative, legal, technological and/pr financial assistance.

Very often, enterprises still underage from the aspect of business, having neither the experience nor the necessary financial sources, have no good chances to survive. That is why the main purpose of such incubator centers is to support new

enterprise/s and their business activities through different methods and forms of the services they need, from their beginning till the time when they become self-depending and profit-making enterprises.

Most of the incubator centers are performing their activities based on the support provided by the state, regional or local communities. There are also certain kinds of incubator centers established by some institutions or even, individuals.

Enterprise incubation system involves large number of institutions offering and providing their support aimed to enable establishing and development of small enterprises/businesses.

Purpose of incubation centers is to have all the services and assistance necessary for small enterprises and enterpreneurship development associated under one single roof.

Assistance offered to the incubated enterprises comprises, most frequently:

- providing the space for operation,
- advisory services,
- legal and book-keeping services,
- financial services (i.e. providing contacts

with the relevant financial institutions, business banks, providing the required bank guarantees, etc.).

In a word, incubation centers established to get together all the services and everything needed by a modern enterprise for successful operation and development.

Services provided by the incubation centers include not only the material aspect but other aspects, too (e.g. technology, information, etc).

It must be emphasizes that neither the structural composition nor the shape of it are strictly defined, and there is not need and there is no possibility for their being standardized

Table 1. Most frequently used instruments for assistance to small companies (in%) [8,p.258]

Instrument	Number of users	Percent of the instrument users	Percentage of the country-user
Regional agency	21	61	80
Local agency	18	52	69
Development Fond	19	55	73
Micro credits	14	41	53
Direct investment	14	41	53
Incubators	18	53	69
Innovation centers	16	47	61
Tax incentives	17	50	65
Modest administr.	11	32	42
Info. centers	16	47	61
Nat. strategy	12	35	43
Branch support	13	38	50
Joint venture	16	47	61
Business planing	17	50	65
Advisory net	12	35	43
Assistance in R&D	14	41	53
Voluntary associat.	13	38	50
Marketing	17	50	65
Quality	11	32	42
Support to export	22	64	84

4. PURPOSE AND OBJECTIVES OF THE CENTER FOUNDATION

Development incubation centers are founded for the purposes depending directly on the founder targets and expectation.

Depending on the type, incubator centers may be classified as: corporate, technological, university, local, private or public-private. Objectives of their foundation may differ depending on the above incubator types based on their founders. Main objectives are generally defined towards: economic development initiation, new jobs creation, business operation diversification, making profit, credibility, etc. Example: University

incubators are oriented to credibility, business diversification and profit. Corporate and private incubators are oriented toward profit, while technology incubators are primarily credibility oriented. Public-private and local development incubator have largest number of targets. Most important of them are new job opening and economic development, which are of less importance for the other types.

Promotion of favourable business environment is of vital importance for the enterprise development. In many countries in development economies, incubator centers have appeared with the aim to encourage economic activities development.

Table 2. *Business development incubators developed in the countries of CEE [1]*

Country	Czech	Estonia	Hungary	Poland	Slovakia	Slovenia
IB type						
Inc.business	16	2	17	53	-	9
KIB	4	3	8	-	5	-
NTP	4	1	4	3	6	3
Other types	-	-	6	-	-	1
TOTAL	24	6	34	56	11	13

Incubators are founded with the purpose to develop entrepreneurs-friendly climate and opportunities for creative ideas turning in opportunity for entrepreneurship.

Careful analysis results have proved that that the "incubated" enterprises are developing much faster, confirming that such a support to the enterprises in development is really necessary. As a rule, such support is needed more by the enterprises oriented towards the global market, newest technology developments and innovations, but primarily and most of all - by the countries in transition. American research results gave proof that state incubators can improve regional economy by 68% approx.; commercialise new technologies - 25%; and initiate economic development - by 22 %.

Main objectives of a development incubator is to offer and provide its assistance to new enterprises at the beginning of their life-cycle, which will, in return, reduce the probability for the newly established enterprises to get ruined in their start-up phase, and also, to develop sound base for new jobs opened for large number of the workers fired in the process of privatisation and restructuring of the state and public enterprises.

Getting incubated, local small enterprises are generating realistic chances for

employment rate increase, entrepreneurship development and, thus, for development of the national economy, as a whole.

5. TYPES OF THE ENTREPRENEURSHIP DEVELOPMENT INCUBATORS

In developed countries, incubators are used for the big companies diversification. In the countries in transition, incubators are just one of the development tool forms, intended primarily to support the SMEs development and, also, to provide the assistance in finding new jobs and/or business opportunities and transfer of technology and knowledge. Development incubators are significant for the fact that they rely on their own forces instead of waiting only for the assistance expected to come from the state institutions, which was just a normal phenomena in the socialist economy systems.

Organised accordingly, and provided with the necessary financial support, incubator centers with the whole network made up of the incubated enterprises, may present a big contribution to development of the economy as a whole, new job opening and new technologies generation.

Depending on the founder and the purpose of their foundation, incubator centers can be classified as follows:

- non-profit (state) incubators,
- enterprise incubators, ,
- private incubators, and
- scientific (University) incubators. [8]

Non-profit incubators are founded by the state, primarily for the purpose of development of the certain individual activities, prospective programs developed to encourage export or local development.

Their main activities are those necessary for the existing production adjustments or modification, economic diversification and/or labour pre-qualification. State incubator centers are applicable especially in the state regions characteristic for high labour unemployment rate.

Corporate incubators appeared as a consequence of the big business systems' incapability to keep the pace with the more and more rapidly changing business environment. To enable their market-orientation and become profit-oriented, such big systems had to develop the so called internal entrepreneurship, based on establishment of a number of new, smaller but innovation-oriented enterprises continuing to operate with and for the principal company.

Private incubators are those founded by private enterprises and/or individuals. Main objective of these incubators is profit-making and transfer of technology. There are many different types of private incubators, but most frequently their main activity is: renting business premises and providing advisory and professional services. These incubators are most widely spread in the USA.

University incubators are developing technologies primarily for commercial purposes. They are founded to enable fastest possible interpretation of the research

results, and transformation of innovations into the actual product and its placement at the market. Another target of their is providing and maintaining credibility of the scientific institution, i.e. the university.

It is worth mentioning and even emphasizing that the most frequently occurring incubator form has no strictly defined characteristics. Because of the constantly increasing complexity of the business surrounding, precise incubator differentiation by characteristic is simply impossible. In many cases those are the so called hybrid incubators which are, in fact, combination of those mentioned above. Therefore, pretty often you can see an incubator founded by association of a number of state and private institutions, or any other combination.

6. FEASIBILITY STUDY OF ENTERPRENEUR'S INCUBATOR

Key steps of any entrepreneurial undertaking are: vision, mission, performance strategies, business plan development and implementation.

Vision, as the initial phase of the undertaking, contains the basic idea of the project and projection of the desired future condition. Mission is showing crystallised version of the vision and expressing the intention and justification (i.e. usefulness of the project), and, of course, the general and specific objectives of the project. Strategies are defining the method/s considered as satisfactory and sufficient for the project objectives meeting. Business plan is the formal business document referring both the development objectives and the strategies defined to meet them.

Planning as the primary function of the

management, is a pretty complex activity. Such a high complexity of the planning process comprises defining the objectives, defining the business policy/ies, formulating the strategy/ies, preparing the program/s and developing plan/s. [10, p. 319]

Business plan is based on the feasibility study.

Because of the lack of any strictly defined rule referring to preparation of business plan, and having in mind its being directly conditioned by the Feasibility study, the resulting conclusion may be that there are no strictly defined rules for development of the feasibility study, either.

Feasibility study can be structured as follows: [7]

- 1) Introduction, history, product/s or service/s description,
- 2) Accounting review/analysis,
- 3) Management,
- 4) Marketing,
- 5) Finances,
- 6) Legal matter,
- 7) Taxes and
- 8) Enclosures.

However, Feasibility study referring to the business incubator realisation, should be structured including the following activities:

- 1) Local economy analysis ,
- 2) Clear definition of the BI objectives,
- 3) Defining possible location/s, type and legal status,
- 4) Defining the partner/s for the subject,
- 5) Defining the services based on the entrepreneurs' needs analysis,

6) Defining the required personnel, procedures and equipment, ,

7) Identifying the possible financial sources.

7. CONCLUSION

Vision and resources managing economic and entrepreneurship development should be directed to establishing of institutions and specification of development means. Apart others, those are entrepreneurship centres for business incubation. This requires the following: complete strategy for providing a competitive business environment, targeting to stimulate growth and development of regional economy, cooperation and networking of regional communities and mutual support of the subjects linked with business. Founding, subsistence and development of SMEs are the base of further local development, which is one of primary tasks of entrepreneurship development incubators.

Pressed by globalization, small enterprises find solution in group efficiency and support of public and private factors. This makes partnership between private and public, i.e. entrepreneurship and governmental subjects vitally important for local and regional economic growth.

Entrepreneurship incubators need a strong and straightforward organization structure and trained management team to manage the incubator. In the countries which went through transition phase entrepreneurship incubators enable small enterprises to access new technologies and market. Conducted polls indicate that entrepreneurs are interested mostly in new technologies and possibility to enter foreign markets, as well as better production financing conditions.

In almost all developed countries there are funds intended for initiation of beginning businesses. Lack of fund of that kind is a limiting factor for development of small enterprises. International organizations, like USAID and HALP incorporate the programmes of support to small enterprises in the form of small grants for starting the business, but they are limited to specific target groups and specific areas. For example, Norwegian organization "Jarenprodukt Udvikling" renders consulting services, founds cooperation groups and provides funds for members of cooperation groups in Serbia, but limited to just two municipalities, Kragujevac and Ba?.

Finally, it should be stressed out that further growth of economy, reasonably based on development of small enterprises, requires support and backing of foreign and local government institutions for development, but first of all the enterprises should have local and regional support.

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