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Constructing business incubation service capabilities for tenants at post-entrepreneurial phase[☆]

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ABSTRACT

Startups receiving assistance from business incubators (BIs) to decrease the high failure rate become a well-known phenomenon. In a review of the literature on BIs, papers seldom discuss BIs service capabilities in providing tenants with the correct assistance in overcoming post-entrepreneurial phase difficulties. For this reason, this study adopts an exploratory research method, semi-structured interviews and a statistical research method to analyze BI service capabilities. Most companies believe that the projects service category is more important than the resources service category for tenant long-term business development. BIs must provide office facilities and basic consultant services and also exert more effort in providing advanced services to tenants. This projects service category includes cooperating with tenants to create business plans, executive strategies and organizational institutionalization. This study provides specific suggestions for BI top managers, potential BI tenants and governments.

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1. Introduction and motivation

Audretsch (2002) indicates that economic growth and employment rates in a nation are proportional to the number of small enterprises and the entrepreneurial activities of the nation. Although entrepreneurship is very crucial for a country's economic development (Belso-Martinez, Molina-Morales, & Mas-Verdu, 2013), small enterprises have a significant failure rate (Honjo, 2000). More than 60% of new firms survive in the first entrepreneurial year, but only approximately 10% of them survive in the first 10 years (Timmons, 1990). Although most people know that startups can apply for some assistance from banks, management consultant companies, venture capitalists and some large enterprises during the entrepreneurial period, the BI constitutes a significant part of the broad range of initiatives that stimulate and support entrepreneurship (Autio & Klofsten, 1998).

Bhabra-Remedios and Cornelius (2003) address that BIs are institutions that help startups survive and grow during their uncertain entrepreneurial phases. BI service capabilities are vital for new firms; however, the literature on BIs seldom examines this subject. Most of the literature discusses BI configurations, tenant development, incubator–incubation impact, theories of incubator–incubation (Sean & David, 2004) and BI performance (Zouhaier, 2012).

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This study adopts an exploratory research method (Tellis, 1997), using semi-structured interviews (Berg, 2001) and a statistical research method to determine BI service capability indicators for helping new firms overcome barriers in the post-entrepreneurial phase. This study also ranks the importance of these BI service capability indicators for the strategic consideration of BI top managers, governments and potential BI tenants.

2. Literature review

This study focuses on analyzing BI service capabilities for helping tenants operate their businesses smoothly in the post-entrepreneurial stage. Kelly (2007) and Williamson (2000) claim that new businesses are vital to the economies of countries world-wide because they create many new jobs. Job opportunities can usually promote the economic development of a country (APEC, 2003; Larroulet & Couyoumdjian, 2009; Van Praag, 2006). Baron (2008), Li and Chen (2009) and Lussier (1995) indicate that a startup requires a decade to establish itself. Nucci (1999) explains that approximately 20% of startups fail in their first business year, 60% of them flunk by their fifth year (Hayward, Shepherd, & Griffin, 2006) and 75% are not successful by the tenth year (Bangma & Snel, 2009). Most new firms collapse in the post-entrepreneurial phase. Understanding the reasons why new firms fail and what they need to operate their businesses smoothly, particularly during the post-entrepreneurial phase is important in decreasing the high failure rate of new firms.

Penrose (1995), Robinson (2000) and Wang and Liu (2006) indicate that the resources for startup success play a decisive role and become a

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vital necessity for new firm survival. Honjo (2000) and Johnson (1986) point out that the main reason for the high startup failure rate is that startups have less capital and industrial experience. Lussier (1995) asserts that expert advice, business planning, education and talented people are key factors for new businesses overcoming entrepreneurial barriers. Bollingtoft and Ulhøi (2005) address that management skill deficiency and/or taking excessively high risks usually result in the failure of entrepreneurs. Cooper, Gimeno-Gascon, and Woo (1994) assert that experience in a similar business, the number of partners, amount of initial capital and industry sector are crucial factors that affect the growth of small firms. Financial affairs, entity equipment, technology, manpower and social (and organizational) resources are key resources for the survival of startups as well (Dollingers, 2003; Lichtenstein & Brush, 2001). Although entrepreneurs can acquire these aforementioned key resources from many different types of organizations, a BI is a good institution that facilitates firm survival and growth (Bhabra-Remedios & Cornelius, 2003).

The National Business Incubation Association (NBIA) (2014) defines a BI as an organization that supports businesses with business planning, counseling, financial assistance and facilities concentrating on startups. According to statistics, the success rate of new firms under counseling from BIs is 80% (NBIA, 2014). Although some scholars argue that BIs for entrepreneurs are not helpful for new firms (Finer & Holberton, 2002), BIs can provide integrated services for startups and fledgling firms to increase their survival rate and growth (Iñaki, 2002). BIs provide integrated services such as technology, capital and knowledge to promote the development of new firms; including office space, business support services to reduce overhead costs; professional business advice and internal or external network provision (Bergek, Jacobsson, Carlsson, Lindmark, & Rickne, 2008; Chen, 2009). In addition to these services, BIs also help tenants strengthen network relationships because network relationship-building is one of the most important value-added components of the incubation process (Lichtenstein, 1992). Laboratory equipment is also one of the services that BIs provide to tenants (Crittenden & Woodside, 2006; Mian, 1996). Rivette and Kline (2000) address that intellectual property (IP) becomes a virtual product to increase revenue or strength for enterprises. Therefore, IP service is one of the main services that BIs need to provide to tenants. Enterprise and market value assessment, crisis management (APEC, 2003), network relationships and institutionalized knowledge transfers (Hackett & Dilts, 2004) are additional services that BIs provide to tenants.

Although BIs can provide these aforementioned services to startups, few BIs understand how to provide the right assistance to tenants to overcome barriers, especially when tenants enter the post-entrepreneurial phase. This study therefore constructs BI service capability indicators to help BI tenants in the post-entrepreneurial phase. These BI service capability indicators can be a reference for BI managers, potential BI tenants and policy makers.

3. Research method

This study divides BI service capabilities for startups in the post-entrepreneurial phase into two categories: resources and projects. The resources category means that BIs use their own resources to help startups overcome the difficulties when they are in the post-entrepreneurial phase. The resources category has five dimensions including human resource (personnel with experience) which is about creativity; intellectual property which is about technology formation; capital; networking; and space and equipment. Each dimension has its own BI service capability indicators. In the projects category BIs implement executive business projects with tenants. The projects category also has three dimensions according to the management principle concept including planning, organizing, directing and controlling (Rausch, 2005). The three projects category dimensions are business planning which means that BIs help tenants with less relevant experience to plan advanced business development strategies; executive strategy

which means that BIs assist tenants in creating executable commodities or cost-effective programs; and institutionalization which means that BIs help tenants begin the institutional phase. Institutionalization supports tenants in becoming more systematic and structural organizations. The three dimensions also have their own BI service capability indicators. Table 1 shows all of the BI service categories, dimensions and indicators.

The structure of modern society is in response to the solutions requirement by a series of problems. A hierarchical structure helps decision makers simplify and easily understand complicated tasks. A hierarchical structure helps decision makers avoid making wrong decisions as well. Against this background, this study uses exploratory research methods (Tellis, 1997), semi-structured interviews (Berg, 2001) and the analytic hierarchy process (AHP) to construct BI service capability indicators for helping tenants operate businesses smoothly during the post-entrepreneurial phase. This study discusses the implications for BI managers, prospective BI tenants and policy makers.

3.1. Analytic hierarchy process

Saaty published the AHP research method in 1971. The AHP is a multiple criteria decision making method. This research method provides decision makers and researchers facing many assessment criteria under uncertainty with structural analysis to assess problems and identify the important decision or research indicators.

The AHP research method systematizes complex issues and uses ratio scales and nominal scales to perform pair-wise comparisons and establishes the elements of a matrix. This research method usually applies the eigenvector method (EM) to calculate both local and global weights for indicators. After calculation, the indicator ranks will follow the local and global weight orders to indicate the importance priority for the research indicators.

Table 1
The BI service capabilities for tenants in the post-entrepreneurial phase according to a literature review (before expert interviews).

Service categories	Service dimensions	Service indicators
Resources service	Human resources (personnel with experience)	The quality and quantity of <ul style="list-style-type: none"> ◆ Business management and marketing personnel ◆ Logistics personnel ◆ International personnel
	Intellectual property	<ul style="list-style-type: none"> ◆ Industry/market information databases ◆ Case/experiences information databases ◆ Finance and economics trade information databases
	Capital	<ul style="list-style-type: none"> ◆ Venture capital funds ◆ Capital markets
	Networking	<ul style="list-style-type: none"> ◆ Industrial relationships ◆ International institution networks
	Space and equipment	<ul style="list-style-type: none"> ◆ Business (sales) space ◆ Logistic equipment
Projects service	Business planning	<ul style="list-style-type: none"> ◆ Competition assessment ◆ Demands for verification ◆ Business management designs
	Executive strategy	<ul style="list-style-type: none"> ◆ Marketing plans (exposure/participation) ◆ Breakeven/profit plans ◆ Marketing value-added plans
	Institutionalization	<ul style="list-style-type: none"> ◆ Staff and team composition (recruitment/training) ◆ Brand building plans ◆ File system building

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