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Business incubation models and institutionally void environments

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A B S T R A C T

This paper builds a conceptual framework of business incubation models in institutionally void environments, a relevant yet understudied topic in the extant literature. On the basis of a qualitative approach based on the analysis of five case studies drawn from a sample of business incubators in Egypt, and grounding on the literature on institutional voids, we posit that there is a necessity for two different incubation models in institutional laggard environments, typically found in, yet not limited to, developing countries. In particular, we show evidence that the two models supply and facilitate different needs of entrepreneurs, in different stages of entrepreneurial life cycle. We further argue that the incubation model choice is contingent on the incubator sponsors, i.e. affiliation of the incubator, mainly through available resources and imposed objectives. Finally, we offer implications for policy makers who can use the framework to design the regulations in a way that will stimulate appropriate incubator creation and hence sustain local entrepreneurship, as well as for incubator managers who can follow the findings to position their incubation model in line with their resources, capabilities and objectives.

1. Introduction

Business incubators are established and diffused organisations that support entrepreneurship activities, and they have been vastly studied to date. Research community has dwelt into theory of incubators, as well as into their success factors (for an overview see Akcomak, 2009; Hackett and Dilts, 2004). One of the streams has focused on the evolution of business incubator models, and there is a wide consensus about how the incubation models developed over time (e.g. see an overview by Bruneel et al., 2012). Nevertheless, when depicting the evolution, the extant research surprisingly accounted for business incubators as relatively homogenous institution that have has similarly developed regardless of the context. These studies have also exclusively based the classification of incubators on data sourced from developed countries (e.g. Barbero et al., 2014; Grimaldi and Grandi, 2005; Pauwels et al., 2015). Although the majority of incubators are indeed located in these countries (the United States and Europe), the authors usually neglected the inherent influence of the institutional environment on incubator dynamics. These trajectories almost univocally point to only one final stage of evolution, allowing no coexistence of models "at the equilibrium". Only since recently scholars have started to analyse business incubators while accounting for the institutional context within which they operate (Dutt et al., 2015). We try to add to these efforts by developing a conceptual framework of business incubation models in institutionally laggard environments, and argue how that is different from the mainstream view.

We follow the approach of Amezcua et al. (2013), who draw on the resource dependence theory to pose that business incubators act as *intermediaries* that stand between incubated entrepreneurial ventures and their business environment. Incubators may influence entrepreneurial ventures in two ways. First, they can represent a buffer mechanism by providing the necessary resources internally, which may shelter the incubated ventures from potential problems and risks stemming from the environment (Lynn, 2005; Thompson, 1967). This isolation from external threats allows incubatees to focus on development of their firms, whether competences, products, services or even their business model (Vohora et al., 2004). Second, incubators may bridge new ventures to their environment when needed, by facilitating relational connections (Baum and Oliver, 1991) and normative alignment (Zimmerman and Zeitz, 2002). The bridging role of incubator assists entrepreneurs in reaching and accumulating resources that they need, but do not control either due to their scarcity or high costs (Aaboen, 2009; Hackett and Dilts, 2004). In sum, this collection of supports which an incubator delivers to incubated ventures is defined as incubation model (Pauwels et al., 2015). What is essential to notice is that both these mechanisms are clearly dependent on the external environment, which makes striking the need for considering it when studying business incubation models.

Therefore, we draw from the literature on institutional voids, which are *failures* that refer to non- or sub-performance on account of factors that hamper organizations and individuals from fulfilling their functions (Boddewyn and Doh, 2011, page 348). These failures are present

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in virtually all countries, yet they are particularly prominent in developing ones. We propose that the countries characterised by the institutional gaps require more complex incubation models. For example, public goods such as fundamental knowledge (that is non-rival and non-excludable) or collective goods such as know-how and applied knowledge (that are non-rival and excludable) are critical to the very early stage of entrepreneurial life cycle. While the provision of those could be taken for granted in many countries, their availability in others is severely affected by the presence of institutional voids (Boddewyn and Doh, 2011), stemming from market or governmental failures (Khanna and Palepu, 1997). These failures create a set of negative externalities for entrepreneurship (Audretsch et al., 2006), which are particularly detrimental in developing countries (Acs and Virgill, 2010), implying the need for business incubation also in a very early stage of entrepreneurial life cycle, considerably earlier than in a more institutionally advanced context. By following the literature on life cycle stage model of new firms (e.g. McAdam and McAdam, 2008), we address this early phase as a *nascent* or *pre-birth stage*, and assert that one incubator model should be tailored to the specific needs arising in that stage. The follow up phase of new venture development is defined as a *seed or start-up stage*, and we contend that another incubation model is required to support the new venture during this stage of development. The two proposed models, based on the study of multiple incubators in an institution laggard context (see *infra*), are thought to be complementary to each other. While the latter corresponds to the modern incubation model diffused in the developed countries, the former is a model that has sizable more value in institutionally void environments, and hence in most developing countries.

Finally, we consider the impact of incubator sponsorship on the incubation models. The literature suggests that the identity of sponsors will have a tangible and imprinting impact on the nature of incubator activities (Dutt et al., 2015). We argue that governmental, NGO-sponsored and academic incubators will focus on the first incubation model, and support chiefly entrepreneurial ventures in the nascent stage of development. On the other hand, we propose that private incubators will prioritise support to more mature business ventures, which are closer to the market. The differences arise from variation in the motivations and resources of sponsors (Amezcua et al., 2013; Greenwood and Suddaby, 2006). For instance, the former group of institutions typically pursues non-profit objectives and has strong interest in spreading venture creation efforts, while the latter group has profit-maximisation strategies and strong interests in fostering only the most financially promising and relatively advanced new business ventures. In other words, we propose that there will be a certain degree of *sponsorship specialisation*, that is *sponsorship division of labour*, reflected in focus on incubation models and stage of entrepreneurial life cycle.

We use qualitative research methodology in order to build up the conceptual framework and the institutional theory to support the set propositions. In particular, we study business incubators in Egypt, which is a developing country with a laggard institutional environment that enforces an array of negative externalities for entrepreneurship, creating a context in which business incubators have a great potential to support new venture creation. Egypt is, in fact, characterised by a rising and diverse business incubating industry that represents an appropriate test-bed for the proposed conceptual frame. The variety allows to thoroughly analyse five cases of Egyptian incubators covering all sponsorship types by relying on standard case study techniques.

The rest of the paper is organised as follows. Section 2 reviews the recent relevant literature and provides motives for the study. Section 3 elaborates on the methodology and the use of cases. Next, Section 4 presents and elaborates on the main findings of the analysis. The paper ends with a discussion of the theoretical and practical implications, proposed future research opportunities and a conclusion.

2. Theoretical background

2.1. Business incubators and the evolution of business incubation models

The very first business incubator emerged in the late 1950s in the United States (U.S.), yet it was not before 1980s that the concept consolidated and diffused (according to the National Business Incubator Association – NBIA, there were 12 business incubators in the U.S. s in 1980). The initial wave of expansion included developed countries, mainly the United States, the United Kingdom and continental Europe. During the course of the last two decades, the total number of incubators has significantly grown worldwide. There are more than 7000 incubators worldwide nowadays, as estimated by the NBIA. Some of the specialised incubators have recently even developed a new label – *accelerators* (Pauwels et al., 2015). They are characterised by a more intensive and focused programme tailored to launch high-potential business ideas straight to the market in a relatively short and predefined period of time.

The academic discourse on the topic has developed in parallel (for comprehensive overviews see Akcomak, 2009 and Hackett and Dilts, 2004). According to the resource based view, business incubator is described as an institution that possesses resources that can be complementary to the resources incubatees possess, and can share them with the incubatees without incurring substantial costs (e.g. Colombo and Delmastro, 2002; McAdam and McAdam, 2008; Rice, 2002). A set of mechanism through which an incubator delivers this support to incubated ventures is defined as incubation model (Pauwels et al., 2015). The evolution of incubation models to date is described in three phases depicted in Fig. 1. Incubators in the first phase (1960–1980s) had a rather simple value proposition of offering infrastructure (e.g. office

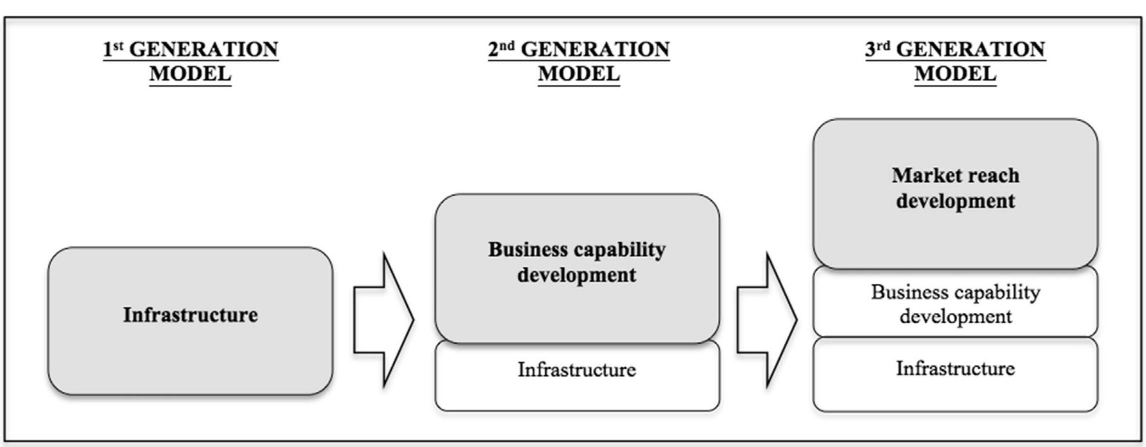

Fig. 1. Evolution of incubation models in developed countries (see Bruneel et al., 2012).