

A GUIDE TO BUSINESS INCUBATION AND INCUBATOR MANAGEMENT

PART II

GETTING STARTED

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FOREWORD

Creating an Incubator, getting the right type of management and establishing incubation processes is moving from a hit and miss art-form towards an established professional discipline. This discipline does not offer a “one-size fits all” recipe, but rather is a structured approach that enables an incubator champion and its stakeholders to reliably design and start an effective incubator project to meet their objectives within the constraints and opportunities that they face.

This Guide offers insights to some of the body of knowledge currently available, and at the least will ensure that those new to the field can quickly appreciate the key success factors, and become well informed about the components that make a successful project.

Furthermore, hope that after absorbing this document you will feel confident in asking the real questions that need to be asked when any new incubator project is contemplated. Exploring the pages should answer about how to get started, or at the very least indicate how to go about finding the answers.

David Rowe

ABOUT UKBI

UK Business Incubation (UKBI) is the national association for the UK incubation industry. Through its growing network, it provides leadership to all those involved or interested in incubation with information, advice and development opportunities as well as events, research and publications to identify and spread good practice. UKBI is committed to improving the quality and scope of business incubation in the UK and so enables the incubation community to fulfil its goal of growing successful entrepreneurial ventures.

UKBI was established in 1998 and has the backing of the DTI/Small Business Service, HSBC, Aston University, Aston Science Park and the Prudential. It works closely with policy makers and development agencies to identify ways of supporting incubation activity. In particular, it has helped to set up the Business Incubation South West (BISW) Network and has assisted in a number of Government initiatives including the Science Enterprise Challenge, Innovative Clusters Fund (now part of DTI's Regional Innovation Fund), SBS Business Incubation Fund, and the management of the DTI Internet Incubator Fund.

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1. INTRODUCTION

Incubation is an interactive business development process aimed at encouraging people to start and grow businesses, providing them with the resources to do so successfully, and creating an environment in which entrepreneurship can flourish.

Business incubators help to create jobs and wealth and are an important tool in the promotion of economic growth. However, there is no magic formula for how to set up and run a successful incubator. Nor is an incubator always the right solution for every community.

In the second of UKBI's *Guides To Business Incubation And Incubator Management: Getting Started*, the important building blocks necessary for all new incubation ventures are examined. Chapter Two highlights the importance of feasibility studies in deciding whether an incubator is the right economic development tool for a locality or region, and if so, how to structure it to meet the needs of the local entrepreneurial climate and entrepreneurs. Once the feasibility study has been completed successfully, the incubator will need to develop a clear and realistic set of objectives by which to structure its activities and measure its success. Chapter Three examines the key ingredients of a successful mission statement.

The guide then goes on to look at the importance of marketing the incubator (Chapter Four), not only to potential clients but also to all the other stakeholders who will need to support and champion the incubator if it is to be successful. Like all entrepreneurial ventures, an incubator also needs to have a robust financial plan and access to adequate sources of finance. Chapter Five describes the ways in which incubators are funded and the financial models that can be used.

One of the most crucial elements of successful incubation is the people who deliver it. Chapter Six seeks to identify the qualities and skills which are necessary for a successful incubation management team and outlines the key roles and functions that exist within the incubation team. Finally, Chapter Seven highlights the importance of having a well-selected and supportive Board of Directors.

2. CONDUCTING A FEASIBILITY STUDY

Why is a feasibility study important?

For any new business venture, a business plan is vitally important, and a new incubation venture is no exception. Not only should it provide the proof and justification for the incubation venture to go ahead, but it should also give the incubator direction for its future development and operation. A feasibility study should not recommend the development of an incubator where there is no clear evidence that it would succeed.

The best feasibility studies can be helpful in:

- Bringing together the key players, stakeholders, and local leaders and helping them to identify the right type of incubator for their 'community';
- Raising the necessary finance;
- Motivating and encouraging participation in the project;
- Identifying and suggesting ways to overcome potential obstacles to the development of the incubator;
- Giving a detailed plan of facilities and business support provision (which is an effective tool for marketing the incubator before it is launched);
- Defining the requirements and characteristics of the incubator's management team;
- Identifying 'champions' to take the project forward (i.e. individuals with the belief in incubation and energy/commitment to the success of the project).

What should a feasibility study consist of?

1. The **objectives and mission statement** for the incubator which should be established in consultation with the founders and stakeholders.
2. A **market survey** which:
 - Estimates the latent or historic pent-up demand for the incubator's services from appropriate start-up and early-stage businesses within the local economy;
 - Estimates the naturally recurring rate of demand from these sources;
 - Establishes the probable spin-out rate from various local sources (e.g. HEIs, research establishments etc.) which the incubator can expect to benefit from either wholly or in part;
 - Establishes the likely additional start-up rate that the incubator, its management and associated start-up programmes might expect to stimulate.

According to Rice and Matthews (1995) there are two sets of incubator 'customers' that will need to be convinced by the feasibility plan: the 'community' and the potential client companies.

The 'community' includes stakeholders and sponsoring institutions as well as those organisations that will provide ongoing support and finance to the incubator and its clients as well as a referral pipeline of entrepreneurs and entrepreneurial ventures to the incubator. In return, the community will expect to benefit from a stream of strong, viable ventures that create job opportunities and wealth.

Entrepreneurial ventures are the second customer group who will need to be convinced of the value of the incubator's physical facilities, shared services and management assistance being provided.

3. Agreement upon the **location, design and specification** of the development (if developing a 'with walls' incubator). Decisions made must **be** consistent with the market opportunity and the objectives of the project¹.
4. A **management structure plan** for the incubator with definitions of the management team's responsibilities.
5. A detailed **financial plan**. The founders will need to establish the best way of funding the project and bringing it into 'break-even' within an acceptable timescale and with an acceptable degree of risk. Self-sufficiency should be a principle aim for all incubators. The feasibility study should have evidence to show how this will be possible, even if it is in the longer-term.

Who should conduct the feasibility planning?

It is generally accepted that employing a specialist consultant² with incubation industry experience is the best way to achieve a balanced feasibility study. While the incubator's founders could attempt the work, the real merit of a consultant is their independence and experience of developing other similar projects. Experienced, qualified consultants will also help to shorten the development and implementation stages and will therefore probably save the client the cost of their fee.

¹ For more information on the design and development of 'with walls' incubators, please refer to "*Building Firm Foundations: The Bricks and Mortar of Successful Incubation*" (UKBI, 2002)

² UKBI can provide details of consultants with expertise in this field as well as providing good practice guidelines and opportunities for networking with practitioners, all of which will help during the feasibility study stage.

What are the common pitfalls of feasibility studies?

- The feasibility study fails to provide adequate detail on basic issues (e.g. where to begin, how to proceed and who to approach).
- Financing assumptions rely on too many 'long shots' or do not take into consideration the funding cycles of the public sector for instance (or the time it might take to gather all the necessary finance).
- Unrealistic expectations – it is rare for an incubator to turn around the fortunes of a region. It can only achieve impact if it is part of a larger economic development plan.
- The study team is not realistic about customer demand to support the development.
- A failure to understand that successful incubation programmes take time to develop.
- The project is driven by the property.
- The study merely copies that done in another locality, offering general observations and recommendations.
- Sometimes, otherwise successful feasibility studies can fail to materialise as a project if there is no local project champion with sufficient authority to carry the ideas forward and implement them. A feasibility study can map the way ahead but it still leaves many significant details to be worked through before the incubator can be realised.

3. DEVELOPING A MISSION STATEMENT

What is a mission statement?

A mission statement describes the goals and objectives of the incubation venture. It serves as a guide for the ongoing development of the incubator and can be useful in making decisions and solving problems as they occur. The mission statement should be at the heart of the incubator's strategic plan, uniting all the stakeholders, sponsors, board members and the incubation management team while being recognisably relevant to the incubator's intended clients.

What makes a good mission statement?

At the heart of the statement should be a clear answer to the question, "what was the main reason for developing the incubator?" It should outline the scope of the incubator (i.e. its target market), its unique strengths, its range of activities, and its vision for the future (i.e. what is the incubator's end goal?).

Mission statements should be simple, clear and concise. Aims should be realistic, the information should be accurate and, most importantly, they should be up-to-date. Mission statements will need to be revisited over time and updated regularly.

The following examples highlight the different ways in which mission statements can be structured.

Huddersfield Business Generator Huddersfield	
Vision:	To be a significant contributor to economic development in the Kirklees region, particularly Huddersfield, by providing business incubation support and services to young start-up companies who can demonstrate entrepreneurial business flair and innovation in the Creative Industries Sector.
Purpose:	To attract, assist, and encourage emerging entrepreneurs in the community; by providing real and virtual environments where these businesses can develop, grow, succeed and prosper.
Focus:	* Graduates wishing to convert their degree into a business opportunity * University staff and researchers wishing to create spin-off businesses * Others in the community with an exceptional business idea

**UNIVERSITY OF WARWICK SCIENCE PARK
Warwick**

To build on the knowledge base of the University and the skills of the University and the skills of the local workforce to create new knowledge based businesses as a means of diversifying the local economy. To achieve this UWSP will:

- * Create specialised property adapted to the needs of growth knowledge based companies
- * Develop a range of business support services aimed at creating more start ups and accelerating the growth of early stage knowledge based businesses.

**SOFT CENTER PERTH
Perth**

Soft Center Perth's number one objective is to bring high skill and high level jobs into Perth. It seeks to do this by providing 'business support' to start-up companies which have the potential for high growth and which are in the high-tech sector in its broadest definition.

The support includes:

- * Fully serviced accommodation, including a computer network and telecommunications links
- * Appointment of a mentor to help guide companies through the difficult early phase of their development
- * Access to a panel of local venture capitalists and public sector funding if appropriate
- * Administrative support and marketing and project management consultancy from Soft Center's employees.
- * Access to a range of legal and accountancy services

**SUSSEX INNOVATION CENTRE
Brighton**

The primary purpose of the Sussex Innovation Centre Management Company is to develop a successful and profitable business enterprise that supports the creation and growth of new knowledge based, technology and other high growth entrepreneurial companies in Sussex.

4. MARKETING

All incubation ventures need an ongoing marketing strategy. A marketing strategy can serve a number of purposes:

1. To assist in the recruitment of new clients/tenants at the outset and on an ongoing basis
2. To promote the incubator's clients to external sources of business support and finance as well as business partners and customers
3. To help raise finance for the incubator and gain other forms of in-kind support
4. To satisfy existing stakeholders that they are getting a return on their investment
5. To help embed the incubator in the wider regional business start-up and support infrastructure

Before undertaking any marketing strategy, it is vitally important that the incubator management team:

1. Clarifies the incubator's objectives
2. Can clearly define the range of services and provisions of the incubator
3. Can identify the key/unique selling points their incubator against other facilities
4. Has established clear and simple qualifying criteria for entry
5. Sets realistic targets
6. Has determined local needs (of potential tenants and the wider 'stakeholder' community)
7. Gets to know the competition (e.g. other facilities and what they offer)

Marketing Channels

Most good incubators will seek to establish their presence in the local business community and attract the attention of potential clients as well as raising the profile of their clients. There are a number of ways in which incubators can achieve this. Some of the more successful marketing channels include:

1. Seminars and speeches
2. The media (TV/radio interviews, newsletters, articles in newspapers, magazines business journals, press releases etc.)
3. Promotional materials (e.g. Annual Reports, flyers, posters, videos/CD-roms, direct mail, exhibitions)
4. Networking of the incubation management team and board members.

Other methods might include open days, networking and workshops; entrepreneurship or business plan competitions/awards; and testimonials.

The promotion of the incubator and its services needs to be the responsibility of the whole incubation management team as well as the board of directors, and not just of the incubator manager. Many incubators have a 'champion' – a well-known, respected individual who is committed to the success of the incubator and who can undertake a lot of the external promotion work. Some incubators, such as Campus Ventures in Manchester employ a full-time PR person to raise the profile of both their clients and the incubator.

Some Easily Forgotten Basics

Some of the following techniques and tools may seem very obvious but it is surprising how many incubators fail to use them in the early stages. They are:

1. Make sure that the Incubator is well signposted from the local main roads
2. Post a signboard outside the Incubator making it clear what is on offer. (Entrepreneur's drive around speculatively or may make a note enroute to a meeting)
3. Ensure that the Incubator name is clearly visible from the road serving the building. Big does not always mean better in this context.
4. Have a web presence. Serious entrepreneurs will expect it and will check you out there as well as the physical reality.
5. Your Local Authority will usually compile and publish a Property Guide / Register. Make sure your Incubator space is included
6. Your Regional Development Agency receives notices of inward investment opportunities. A few are start-up subsidiaries overseas SME businesses. If your incubator admits this category of business then get into the information loop.
7. Consider appointing a well respected local commercial and industrial property agent – THEN TRAIN THEM in what you are looking for in a client, which may take a year or two before they fully latch on. Do not expect too much, but they might provide leads to a further 10% or so of relevant enquiries.

8. Look where the entrepreneurs always go – The banks, accountants and lawyers – take it slowly and build your credibility with these intermediary organisations through practical working arrangements that give a win-in to both sides.

Additional marketing activities

A good marketing strategy needs to go further than profile raising activities. According to Rowe (2002), there are three complex, but key components that need to be included in a marketing strategy for an incubator in the 21st Century.

These are:

1. **Integration** into the regional business start-up and SME support infrastructure with the aim of creating the best possible start-up and support services for the incubator's clients, while maintaining a distinct identity for the incubator
2. **Taking the incubator to the entrepreneurs** (you cannot expect them to come to you)
3. **Building special relationships** (e.g. with the local University or other public sector centres of research with the aim of accelerating spin-out formation rates).

Integration

Within Europe there are many different agendas which impact on incubators. They include:

- a. regional innovation strategies,
- b. SME business support and enterprise
- c. business start ups,
- d. University spin outs
- e. Seed funds, and early stage venture capital

The management team and board of an incubator should seek to be directly involved in the development of these areas for two reasons. First, so they can influence the development of planning and policy to ensure that resources are targeted at those categories of business which are the incubator's primary clients. Second, to ensure that within the local economy, other organisations are made aware of the incubator's work and that they develop processes to drive relevant resources and clients towards the incubator.

An example of this is the creation of seed funds. It would be extremely difficult for a single incubator to take the lead for managing a seed fund unless it happened to have a large staff, some of whom were qualified in fund management. Instead, incubators will probably have to tap into existing regional or national seed funds. In this circumstance the incubator needs to develop a good working relationship with the seed fund manager. Incubators such as Warwick do this by having professional staff whose job is to secure "access to finance" for their clients and those staff know how to prepare start ups and early stage SMEs to be "investment ready".

Take the incubator to the entrepreneurs

Implicit in the integration process described above is the idea that, where the incubator develops specialist skills, it should be able to use those skills to help businesses across the whole region, not just clients accommodated in the incubator. This has two key advantages for the incubator:

- i. **Economic.** By operating across a region there are natural economies of scale enabling the employment of specialist skilled staff in areas such as access to finance, international marketing, intellectual property etc., which an incubator would find hard to justify on the basis of the clients within its walls.
- ii. **Greater visibility.** The professional specialists enhance the reputation of the incubator, naturally enhancing its reputation and hence its brand. This in turn increases the visibility of the incubator to the SME and start up business community.

Building special relationships

Building a working relationship with the local University or other research centre with the aim of influencing their thinking on spin-out activity can have long term benefits for many incubators, particularly technology-focussed incubators.

The symbiosis between BTC Twente (an incubator) and the University of Twente in the Netherlands has resulted in over 80% of the space in their 6,000m² incubator being occupied by University spin-outs, many coming from the University's TOP [Temporal Entrepreneurial Positions] placement programme which they have been successfully running for over 15 years.

Enterprise and entrepreneurship is becoming a key activity in many Universities driven by public policy and the desire to develop a culture of innovation. The Universities are also becoming interested in the longer term equity gains they may be achieved from commercialising their intellectually property through start-up ventures. This gives incubators and Universities some common ground for discussion.

5. THE FINANCING OF BUSINESS INCUBATION³

Just as there are many different models of incubation, so there are many ways to finance the activity. However, all incubators will need sufficient resources to meet their objectives. Incubation is not a cheap option. It is resource-intensive and requires good quality people.

Types of funding

During the start-up and early development phases, most incubators will require some capital and revenue funding. The following list highlights some of the types of finance that might be considered. In reality, an incubator will probably use a 'cocktail' of different finance of various different types and from various sources.

- Grants and gifts (with or without 'strings' attached)
- Sponsorship
- In-kind support (e.g. free or subsidised accommodation/advice/services)
- Soft loans
- Commercial loans
- Commercial leases
- Income from services provided
- Rental income
- Revenue sharing with partners (e.g. developers)
- Shareholder funds (availability tends to increase with maturity)
- Equity participation in the client companies (a long term strategy)
- Royalty agreements with client companies

Strathclyde University Incubator

Established in 1989, the incubator has been created to support the growth of new companies in Scotland and to encourage technology transfer out of the university. SUI has four shareholders, including the TSB plc, Gresham House plc, Glasgow Development Agency and Strathclyde University.

Sources of finance

a) The private sector

³ Much of this chapter has been developed from papers presented by David Rowe and Treve Willis at the UKBI conference "Money Matters: Finding Finance" (October 2002)

It is unusual to find purely private sector funded incubators. Exceptions include 'Internet' incubators which grew in number rapidly during the dot.com boom. Built on an intensive, 'hands-in', equity-based approach to the management of their client companies, many private sector players entered the market. However, this model of incubation was relatively short-lived once the dot.com 'bubble' burst, although a number still exist but many have had to change their underlying business model.

In recent years, some commercial property development companies have also become involved in the development of incubators. However, they tend to do so in partnership with the public sector. In pure commercial property development terms, incubators are not economic because:

- They are occupied by client businesses which require short, flexible leases
- Occupancy rates are generally below 100% (to ensure throughput of clients)
- Space needs to be set aside for communal/networking activities which are non (or low) revenue generating
- The level of management input to provide the ongoing business support and manage the facilities is far greater than for other commercial properties.

These factors affect the overall asset value. Unless a developer/investor is willing to think long-term, has philanthropic motives, or there is also 'soft' funding available, most will not enter the incubator market. An exception to this is the Milton Park incubator operated by Oxford Innovation. In this example, the private sector developer has been prepared to subsidise the development of the incubator in order to create a stream of home-grown tenants for its wider business park development over the longer term.

Milton Park

The Milton Park Innovation Centre was established in 1991 by a property developer as part of a mixed-use business park. The Centre's management services are provided by Oxford Innovation Ltd. It provides 6,500ft² of space and is currently home to 15 technology businesses. Since 1991, the Centre has graduated over 25 companies and the survival rate of graduates after three years is 85%. The majority of graduates have moved out onto the main business park, creating over 350 jobs and generating over £700k p.a. in rental income for the Park.

b) The public sector

Most incubators are financed by at least one public sector organisation. Sources of finance include:

- European financing (e.g. European Regional Development Fund – ERDF or European Social Fund - ESF)
- Local Authorities
- Regional Development Agencies - RDAs
- Universities
- The SBS Incubation Loan Fund - a loan fund primarily aimed at projects which fulfil social inclusion/regeneration aims
- The Phoenix Fund
- Local Development partnerships and organisations
- Business Link

Income is often supplemented by:

- Consultancy (assisting other incubators in their design)
- Running programmes for other organisations (e.g. for Business Link)

Sussex Innovation Centre

SinC was financed using a combination of sources including Local Authorities, local universities and a local electricity supply company, which provided both capital and revenue funding to provide a capital-free building, thus enabling all income to be channelled towards business support.

The financial model

Self-sustainability

“Nothing diminishes the energy and enthusiasm of sponsors, stakeholders and staff more than having to focus month after month, and year after year, on the financial survival of the incubator. If the incubator is going to be around long enough to have an impact, it needs to be self-sustainable. Only then can the sponsors, stakeholders and staff concentrate their energies and capacities on developing incubator client companies” (*Rice and Matthews, 1995*).

Self-sustainability in business incubation takes time to achieve (as illustrated in the rest of this section).

Factors that affect the ability for incubation ventures to reach this position include:

- Size of building (the incubation industry in the UK and US generally agrees that incubators need to be at least 30,000 square feet in order to stand a chance of breaking even over time with a ratio of about 85% net lettable square feet to gross internal area).
- The nature, specification and locational attributes of the building (some regions may need a lot more floorspace to break even)
- The nature of the assistance programmes provided

The financing of the building

As incubators do not have valuations that would generally attract purely commercial private investment capital, most are financed on a cash flow basis and are designed so that an injection of an initial grant will allow income generated to cover outgoings once a reasonable level of occupancy has been achieved. Others may depend on ongoing support from their stakeholders to maintain a sustainable cash flow.

Most incubators work on the principle of an initial grant plus loans to finance the project, where the level of the initial grant also takes into account the negative cash flows of the first 2 to 3 years as occupation of the incubator rises to its optimum level. The extent of the grant needed to achieve cash flow breakeven on a cumulative basis with 5-7 years can typically be about 25-50% of costs depending on variables such as:

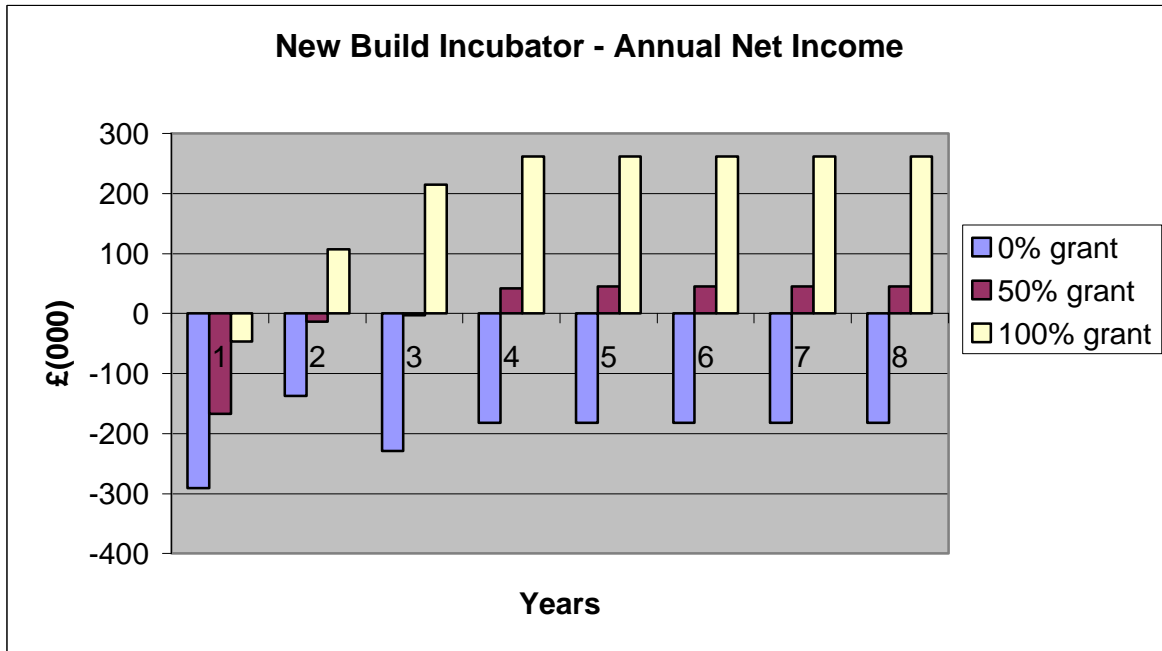
- Whether or not the land is owned by a partner who is prepared to accept a reduced or limited return on it for a period
- The level of rent that can be sustained
- The specification of the incubator and hence its build costs.

The following model is based on the capital costs of the building plus common services and management that can perform the marketing and selection processes and some assistance to the businesses on site (at least to the level of intelligent signposting to appropriate private and public sector providers of business support services). It does not include the provision of a comprehensive package of support with tailored or specialist services.

Figure 1 shows the typical cumulative cash flow for a purpose-built incubator over the first few years. Where there is no capital grant aid, the heavy negative cash flow will have to be sustained from other sources. If the project is 100% grant aided for its development costs, however, the project rapidly builds a significant cash surplus which might be deployed towards resourcing a full range of business support services for the clients of the incubator and other similar businesses in

the locality/region. With grant aid of around 50%, the diagram shows how the project can move into breakeven on a cumulative cash flow basis after about 7 years and does not develop either heavy negative or positive cash flows at any point in time, while it is still servicing the capital debt used to finance the building.

Figure 1



The financing of the business support

A comprehensive incubation programme might include:

- a) Pre-incubation (e.g. entrepreneur training and business model development)
- b) Incubation, including business planning, investment readiness, access to see funding and business angels, sales development, team building, intellectual property protection
- c) Early growth services, including investment readiness, access to capital and business angels, international marketing and team building

Costs for a programme employing professional human resources, whether full or part time, will cost no less than £250,000 and sometimes more than £750,000 per annum. The implication of this level of cost is that it can only be justified if:

- The clients are very selectively identified for the incubator (i.e. high growth/potential), and/or
- The programme is extend to companies beyond the walls of the incubator, and/or
- The incubator is 100% grant funded, and/or
- More than one incubator is operated to increase economies of scale.

University of Warwick Science Park

The four incubators run by Warwick Science Park in the West Midlands have taken the lead in running the TeamStart high growth pre-incubation start up programmes which are run under the West Midlands “Mustard” banner. They are also involved in a seed fund (investments up to £50,000 per company” and investment readiness service. Funding is being derived from Advantage West Midlands (the RDA), ERDF, Coventry and Warwickshire Business Link, Birmingham and Solihull Business Link, and Warwick Science Park. The two programmes are funded to £3.5m over 3 years including nearly £1m for the pre-start fund.

6. PUTTING TOGETHER THE RIGHT MANAGEMENT TEAM

Incubation is a human resource intensive activity. In order to recruit and retain the right people, it is important to first understand the various roles and necessary skills and qualities. Different incubators will employ different numbers of staff depending on issues such as funding, size of incubator, scope of business support activities, sector focus, and stage of development. For an incubator of 30-40,000ft², it is generally accepted that there needs to be at least three or four people making up the management team. These include the incubator director, a centre manager, a receptionist and an administrative assistant. However, at the outset, it is likely that there will be a shortfall in the number of staff necessary, with individuals having to perform a number of different roles and tasks. It is therefore vital that all staff are flexible and able to undertake most of the core tasks at some time or another.

Sussex Innovation Centre

The structure of the SinC management team is as follows:

Executive Director	Researcher
Enterprise Hub Director	Administrator
Centre Manager	Receptionist
Financial Administrator	Shell Step Scheme Organiser (Part time)
Facilities Manager	

When defining the responsibilities of the incubation management team, it is probably more meaningful to group them in terms of core tasks/duties, rather than by job description. The following list⁴ is by no means exhaustive, but is meant to give an introduction to the kinds of tasks and duties that will be necessary for the management team.

1. Management of the incubator as a business

Financial Management

- Raising funds for the incubator
- Writing grant proposals
- Preparing annual operating and capital budgets
- Evaluating and reporting on financial performance
- Monitoring budgets and reporting to board
- Establishing and maintaining a financial control system
- Negotiating lease terms
- Developing and implementing a fee system for incubator services
- Making major purchasing decisions

⁴ List has been compiled using a number of sources, including the 1999 NBIA publication, *Human Resources: Finding the right staff for your incubator*.

Strategic Management

- Writing and refining strategic plans for the incubator (e.g. new initiatives)
- Defining/refining mission statement
- Implementing ways to measure the incubator's success
- Meeting with the board and preparing reports for them
- Acting as a staff liaison point with the board
- Liaising with stakeholders, policy makers and other key players
- Identifying income generation opportunities
- Undertaking feasibility studies
- Identifying resource requirements and cost implications

Staff and Personnel Management

- Preparing job descriptions and personnel specifications
- Managing the hiring of staff (e.g. interviews and selection)
- Establishing staff appraisal and performance systems
- Supervising staff
- Dealing with staff grievance issues and disciplinary action
- Setting and reviewing the salary structure
- Assigning work, duties and responsibilities
- Developing a staff training programme

Marketing and Promotion

- Devising and managing a marketing strategy for the incubator and its activities
- Preparing press releases
- Undertaking promotional activities
- Preparing marketing materials (e.g. brochures, newsletters, ads, website)
- Planning special events/media opportunities
- Representing the incubator (give speeches, attend community events, etc.)
- Developing and maintaining media contacts

2. Management of the incubator infrastructure and facilities

Operations Management

- Dealing with client applications
- Undertaking reference checks
- Administering legal contracts and licenses with clients
- Establishing and operating procedures for collection of rent and fees
- Administering purchasing policies and procedures
- Ensuring the incubator complies with legal and regulatory requirements
- Managing client disputes and complaints

Administration

- Developing and maintaining databases
- Clerical support for the incubator (e.g. typing, faxing)
- Managing the hiring out of meeting rooms and equipment
- Administering secured systems (e.g. passwords for facility entrance)
- Assisting clients with move-in process (e.g. installation of equipment)
- Responding to public requests for information
- Generating internal communications (e.g. memos, internal news, website)
- Providing training on phone and computer systems, etc

Facilities Management

- Managing and maintaining computer systems and LAN
- Responsibility for major plant and equipment, infrastructure, parking and grounds
- Coordinating maintenance staff or outside contractors

- Developing security procedures
- Ensuring emergency procedures are in place and understood
- Overseeing refurbishment, construction and expansion projects
- Providing adequate catering facilities
- Providing reception services and clerical support for clients
- Sorting and routing mail
- Managing common area services

3. Management of the incubation process

Client selection and graduation

- Screening clients
- Setting up a selection panel
- Setting criteria for entry
- Helping clients through the selection procedures
- Agreeing and administering exit policy

Business Planning and Development

- Developing and refining a comprehensive business support programme
- Advising clients directly on basic business development processes
- Helping clients write/refine business plans
- Helping clients market products/services
- Mentoring
- Creating work plans and setting targets for clients
- Monitoring client progress towards set targets
- Assisting clients in raising finance to grow their businesses
- Assisting clients who are ready to leave the incubator
- Monitoring use of services and adjusting menu accordingly

Special Programmes

- Providing on-site training for clients and other local entrepreneurs
- Creating and managing loan or seed funds
- Maintaining/managing information resources
- Providing specialist equipment/facilities

Networking/On-going Relationship Management

- Linking clients with sources of finance (e.g. banks, business angels, VCs)
- Connecting clients with resources (e.g. funding, the local research base, HEIs etc.)
- Creating links with local business support networks
- Recruiting and building networks of mentors & other professionals
- Negotiating fees
- Creating opportunities for clients to network with one another

Core skills

It is vitally important to select the right people to run the incubator. The following table outlines some of the core skills, abilities and personal qualities that are necessary of the incubator director/manager.

Table 1 – core skills, abilities and qualities

Adaptable	Willingness to take advice/knows own limitations
Determined	Conflict resolution skills/good negotiator
Resourceful	Organisational skills/attention to detail
Passionate about incubation	Problem-solving skills
Willing to get hands dirty	Project management skills
Integrity/discretion	Legal knowledge

Credible and respected (a role model)	Ability to provide sound business advice
Professional	Computer literate
Able to empathise	Good written and financial skills
Good listener/approachable	Understands local politics
Ability to think at a strategic level	Broad-based business understanding & experience
Excellent networker at all levels	Analytical skills
Leadership	Ability to evaluate a business plan
Entrepreneurial	Ability to identify the needs of the clients
Good communicator	Effective delegator
Can motivate and enthuse	Ability to multi-task
Fair and honest	Can cope under pressure
Able to work with the board	Sector/market experience (where necessary)
Marketing skills and experience	Personnel management experience and skills

7. SELECTING A BOARD

A strong and committed board of directors is a valuable and necessary resource for any incubator. They can provide credibility, leadership, strategic direction, networks of contacts and support for the incubator management team.

An incubator board's responsibilities should include:

- Strategic direction and planning
- Policy development (e.g. mission statement, admissions criteria)
- Raising finance (e.g. sponsorship) and developing a model for self-sustainability
- Making sure that the incubator conforms to its legal responsibilities
- Monitoring the overall financial viability of the incubator (setting budgets etc.)
- Reviewing and modifying the mission statement over time
- Setting goals/targets and helping to put in place meaningful ways of measuring progress towards those targets
- Recruiting the incubation management team
- Supporting the management team and enabling them to fulfil their commitments
- Reviewing the board's own and the incubator staff's activities and evaluating effectiveness
- Managing external relations (e.g. raising the profile of the incubator, communicating its mission, building a know-how network of experts)
- Reviewing and approving new activities and programmes provided by the incubator
- Supporting the development of the client companies (e.g. mentoring, expert advice)

University of Warwick Science Park

The Board of the Science Park is regulated by the Articles of the company. The shareholders each have the right to appoint Directors as follows:

- University of Warwick (3 Directors including Chairman)
- Coventry City Council (2 Directors)
- Warwickshire County Council (2 Directors)
- West Midlands Enterprise (2 Directors)

Only the shareholders can appoint and remove their Directors and not the Board. The Articles prevent any other Director(s) appointed by the Board from having a vote.

The above construction of the company's constitution places the control of the company squarely with the shareholders in a regulated balance of power. This balance of power has been an effective instrument in the success of the Science Park. It has also been instrumental in forging much improved working relationships between the Local Authority and the University. The Board appoints the Science Park Director, who reports to them.

While the right board can be extremely useful, the wrong board can create many problems and be a tremendous drain on the incubator manager's time. Most problems occur when there is a misalignment between the vision of the board and the management. A common cause of conflict is the fact that the board is often already in place long before a management team is hired, as is the mission and business plan. This can cause problems if the reality of the incubator's operation is at odds with the mission and business plan. Furthermore, it is well-documented that incubators go through a development lifecycle (e.g. Allen, 1988). The board therefore needs to be able to adapt to these changes as they occur.

Wolfe et al (1991) outline a number of pointers to help create the best board possible:

1. **Make policy development the main role of the board.** Day-to-day operation of the incubator should be in the hands of the management team.
2. **Set guidelines for the hiring, evaluation and transition of management team members.** The board needs to have the tools and to take the time to hire the right people to manage the incubation environment. This requires an understanding of the key roles of the incubation management team and the skills required. They also need to be able to compensate their managers appropriately, conduct ongoing evaluations, and remove anyone not doing a good job.
3. **Establish clear objectives that everyone understands and supports.** These should be realistic, accurate and up-to-date. The support and development of the clients should be at the heart of the mission statement and everything should be measured against that standard.

Sussex Innovation Centre

The board of the Sussex Innovation Centre have developed seven key goals for the incubator management company. These are to be:

- i. Self-supporting, with respect to short-term people and resource needs
- ii. Self sustaining with respect to longer term financing requirements
- iii. Measurably successful, in terms that are capable of explicit communication to all stakeholders in the enterprise, but most importantly those who are to benefit from the support provided (i.e. the client businesses)
- iv. Primarily an economic development initiative, but utilising commercial enterprise
- v. Focused on the local 'Academic Corridor' area but operating Sussex wide
- vi. A management company rather than a property development company
- vii. Independent, entrepreneurial and effective.

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4. **Minimise management interference.** Whenever possible, the board should keep diversions from the management and be careful not to ask the management team to do things that are not directly related to the mission statement. There is also the danger that a member of the board might try to take too much control or become too involved in the management of the incubator. This can be prevented by creating clear job descriptions for the board.
 5. **Make provisions for removing an ineffective board member.** If a board member is hindering the business or harming the incubator, there needs to be provision in the memorandum and articles to remove that member. Putting in place 'terms' for board membership (e.g. one, two or three years) also helps to prevent a stagnant board.
 6. **Establish open lines of communication between the management team and the board.**
 7. **Choose the right types of board members.** Part of the board's composition will undoubtedly reflect the funding sources and stakeholders in the project. In addition, it is helpful to have a clear list of board duties and responsibilities which can be helpful when selecting the right people. The main goal is to find people that will do what the incubator needs and be committed to the mission of the incubator rather than having a personal agenda.
 8. **Choose the right number of board members.** There is no formula for this, other than to make sure that the board is no bigger or smaller than is really necessary and that it contains a range of skilled individuals (e.g. leader/s committed to business incubation principles, networkers, business assistance providers, investment professionals, entrepreneurs).

Cobweb

The Cobweb Incubator has eight 'partners' who are all stakeholders and shareholders. "They make the decisions" says its founder/manager Chris Fogg. Each partner brings different skills (managerial, finance, chartered accountancy, IT, R&D, HR, academic, marketing and property management).

9. **Make it easy for the board composition to change as the incubator develops.** As the incubator grows and develops, so the board will need to develop and the importance of certain skills will change over time, particularly as the incubator moves towards a position of self-sustainability.
10. **Minimise the time spent in board meetings and general governance.** The incubator manager should not be expected to service the board, and the board should communicate in the most efficient way possible, in order to maximise their impact and the time spent with clients. At Cobweb, the partners meet just once a month, but keep each other up to date by email. The incubator manager / director will necessarily service the Board as far as key policy and decision making is concerned.

Committees

As well as the board, many incubators have separate committees to advise on the various aspects of their incubation activities. They may include representatives of the shareholders and other stakeholders. Committees can be an invaluable forum in which to carry out strategic thinking and to tackle 'political' issues before they go to the board. This way, issues taken to the board are well thought out and can be dealt with efficiently and quickly.

GLOSSARY OF TERMS

Accelerator	'Fast-track' incubation usually with an investment/equity focus. Often technology or Internet business focus.
BISW	Business Incubation South West – a network of incubators established with UKBI's assistance in the South West with the aim of sharing good practice in the region
Building business incubator	Incubator which focuses on creating businesses by building management teams around ideas
Corporate incubation	Incubation programme or facility linked to or part of a large company to support spin-outs and spin-ins
Due diligence	The examination of a company and its owner's credentials etc. prior to funding or entry to an incubator
Empowerment incubator	US term used for incubators supporting entrepreneurship among 'disadvantaged' groups (e.g. low-income/ethnic/gender businesses)
Entry policy	Requirements for entry to an incubator/incubation programme – client may have to meet certain criteria
Exit strategy	Strategy adopted by the incubator to encourage the natural progression of clients through and out of the incubator/incubation programme
General/mixed-use incubator	Providing support for small firms across a range of sectors
Graduates	Clients that have left the incubator
Graduation policy	See 'exit strategy'
Grow-on space	Property into which clients move when they leave the incubator. Often close to the incubator
Hands-off	Incubation management has no direct involvement in the development of the client company
Hands-on	Incubation management is involved in supporting the client business (i.e. by mentoring and providing access to other sources of help and advice)
Hands-in	Incubation management has a direct role to play in running the business, often taking a seat on the Board and developing the business team
Hot-desking/rent-a-desk	Provision of desk-spaces which will be used by businesses as and when needed (not allocated to any one business, often on a part-time basis)
Hub and Satellite	Useful in regions where there is not the critical mass of businesses to support a number of freestanding incubators. A 'hub' incubator located in the region provides core incubation services and 'outreach' to smaller 'satellite' facilities
IIF	Internet Incubator Fund. DTI fund to support the development of Internet Incubators. Managed by UKBI.
IIN	Internet Incubation Network. A UKBI sector group set up to promote the sharing of good practice, networking and research into Internet incubators
Innovation Centre	Usually a synonym for incubator, but sometimes it will denote a facility for nurturing high-tech companies from start-up to well beyond the incubation phase.
Internet incubator	Incubators focussing on businesses that are Internet-based or conduct a large part of their business using the Internet. They are often equity-based models of incubation.

Investment readiness	The process by which enterprises and their owners are prepared in order to be successful in raising external finance
Outreach	Support provided to businesses not based within the incubator
'Pre' incubation	Supporting the development of an idea/innovation to the proof of concept stage
'Post' incubation	The stage after the incubator, when clients move into 'grow on' space. 'Graduates' often retain links back into the incubator.
RDA	Regional Development Agency
Science Park	Essentially a cluster of knowledge-based businesses (of varying sizes and stages of development). Some provide incubation services. Most are associated with a centre of technology such as a university or research institute
Sector-specific incubator	Supporting and developing clusters of businesses in a specific sector
Selection	See 'entry policy'
Social inclusion agenda	In this context the term applies to incubation strategies supporting under-represented groups of business owners (e.g. ethnic groups, women, young people)
Technology incubator	Providing support for new ventures in technology-based sectors
Technopole	Integration of research, incubator and science park on one site
Virtual incubator	The delivery of an entrepreneurial and supportive incubation environment but which is not delivered through an incubator building
With walls incubator	Provision of space on flexible terms as well as access to business services
Without walls incubator	See 'virtual incubator'
Workspace	Rented business accommodation plus some shared facilities. Less/no emphasis on business support. Entry/exit policy generally based on ability to pay rent.