

Selecting the Right Clients for a Business Incubator- Lessons Learnt from the National Integrated Business Incubator System (IBIS) Programme in Trinidad and Tobago

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Abstract

This paper investigates the Client Selection process in Business Incubation and provides lessons learnt from the National Integrated Business Incubator System (IBIS) Programme in Trinidad and Tobago. The concept of Business Incubation has been gaining prominence to increase the supply rate of entrepreneurs, create jobs and assist in economic development. Business incubators are viewed as entrepreneurial hubs that can channel the entrepreneur and allow them to unleash their ideas and business enterprises to markets. These enterprises would be operating from a position of strength by virtue of the nurturing environment of a business incubator which increases their success rate to 90%. Nonetheless there is competition for resources and business incubation placements and the success of the Business Incubation Programme hinges on the performance of the client and their business enterprise. The Client Selection process is a critical component of business incubation so that value for resources can be achieved while simultaneously ensuring there is a right fit with the client and the objectives of the business incubation programme. The lessons learnt sprang from internal and external perspectives gleaned from the implementation of the IBIS programme. These perspectives ranged from staff recruitment, communication strategies, community engagement and client diversion systems.

Keywords: Business Incubation, Client Selection, Entrepreneurship Development

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1. Introduction

In recent years, communities around the world have increasingly embraced the business incubation concept. According to Allen and Weinberg (1988), the driving force of business incubators is “the supply of expertise, capital and support that comes from assistance activities directed towards filling the voids in entrepreneurs’ abilities.” The question then becomes; how do business incubators determine which entrepreneurs will benefit from these assistance activities. Incubators determine which clients are admitted into their incubator programs by means of a client selection process. However, this client selection process may vary from incubator to incubator, leading to a level of uncertainty in the development of a standard client selection toolkit.

However, according to Walker (2004), due to the existence of variations in mission, client type, location, and other dynamics, all incubators must formulate a client screening process and selection criteria to suit its unique needs. This paper examines the role and importance of Business Incubation and focuses on the client selection process by outlining the different client selection practices and selection criteria used by successful incubators all over the world.

The client selection process of the Integrated Business Incubator System (IBIS) Programme in Trinidad and Tobago is further examined to demonstrate process and lessons learnt from implementation that can be utilized to guide and inform other business incubation programmes. The concepts from the lessons learnt sprang from internal and external perspectives to produce a holistic and rich experience that was gleaned from the implementation of the IBIS programme. These perspectives ranged from staff recruitment, communication strategies, community engagement and client diversion systems.

2. What is Business Incubation?

The National Business Incubation Association (NBIA, 2014) defines business incubation as “a business support process that accelerates the successful development of start-up and fledgling companies by providing entrepreneurs with an array of targeted resources and services.” Business incubators represent multitenant facilities with management directing a business incubation program, whose main objective is to nurture successful firms that will leave the program financially sustainable and self-supporting.

Business incubation programs afford clients access to suitable rental space and flexible leases, an array of support services, shared business services and equipment, and the financial assistance necessary for enterprise growth. They may also provide business assistance services for non-tenant clients, also known as virtual or affiliate clients (Lewis, Harper-Anderson, and Molna, 2011). According to the Small Business Council (1988), business incubators represent a systematic approach to the development of new enterprises, which can be defined as comprising five dimensions: enterprise development; a business consultancy network; entrepreneurial synergy; flexible affordable working space; and shared office services. The research of Al-Mubaraki and Musler (2013) defines a business incubator as an economic and social development entity designed to advise potential start-up companies, help them to establish, and accelerate their growth and success through a comprehensive business assistance program. The main goal is to produce successful businesses that will leave the program financially viable and freestanding. These graduates create jobs, revitalize communities, commercialize new technologies and create wealth for local and national economies.

2.1 The Business Incubation Process

In hopes of adding value and increasing the incubated businesses' chances of success, incubators establish what is known as a process of incubation. This incubation process differs significantly from incubator to incubator, as a result of the specific regional characteristics, targets and requirements of the incubated companies. Though their specific forms of implementation may differ, generic elements exist in the incubation process of any incubator. Bizzotto (2003) outlines these generic elements of the incubation process, which, if absent, would prevent an entity from being called a business incubator. He describes this "generic business incubation model" as containing the following subsystems:

1. Prospecting and Attraction
2. Client Selection
3. Orientation, Accompaniment and Assessment of Incubated Companies
4. Graduation
5. Assessment of the Incubator

In addition to this, Ganamotse (2011) goes further to describe the incubation process as being characterized by an array of value creation activities. These value creation activities include client selection, business development, access to networking opportunities, access to finance and the intermediary role played by business incubators.

2.2 Benefits of Business Incubation

Business incubators are considered important to local economies as a result of their perceived value creation derived from nurturing and developing innovative and high growth, small and medium enterprises (SMEs). The recent research into business incubation suggests that it is a significant tool for sustainable economic development. Many business incubators aid in the process of strengthening the local economies in which they operate as the survival rate of their operational business tenants within the incubator is 90% (InfoDev 2009). This positive rate has encouraged the state to provide funding and other business incubator support services to increase the supply of entrepreneurs within a community. According to Lalkaka (2001), the benefits of a well-managed incubator can be numerous for stakeholders. Firstly, for tenants, incubation augments the chances of success, creates synergies among client-firms, helps improve entrepreneurial and business skills, raises credibility and facilitates access to mentors, information and seed capital. For governments, incubation promotes regional development through the generation of jobs, incomes and taxes. Furthermore, it allows governments to actively demonstrate their political commitment to small businesses. The local community also reaps benefits, as incubation enhances local incomes while fostering an entrepreneurial culture, as many graduating businesses stay within the area.

3. The Client Selection Process for Successful Business Incubation

Despite the general argument of the importance of new venture creation and the benefits of business incubation to economic development, not all new venture creations may contribute to economic growth. Recent research (Shane 2009) suggests that economic growth and job creation are a function of high quality, high growth companies. As a result, in order to positively impact economic development, policy interventions strive to stimulate the development of high quality new ventures rather than the mere achievement of high numbers of new ventures (Fritsch and Schroeter, 2009).

So to should business incubators, being economic development policy instruments, be selective in the development of new ventures if they aim to positively impact economic growth, striving to attain high quality, high growth companies as opposed to merely high numbers of new ventures.

Consequently, client selection processes and the criteria used to select incubator clients become paramount to the success of the business incubator. This contention is further supported by Bizzotto (2003), who argued that a crucial point for the success of any incubator is indisputably the selection process of prospective companies. He states that the number of graduated companies will be directly proportional to the quality of the selection process. As a result, the goals of any selection process should be to identify those business proposals that have a greater chance of success. Being selective ensures that only high quality start-ups are assisted to start-up and grow.

3.1 The Role and Importance of the Client Selection Process for a Business Incubator

According to Cammarata (2003), the ultimate goal of a client selection process is to determine the existence of an appropriate match between the prospective client's needs and potential and the incubator's mission and resources. Similarly, Walker (2004) also shared the belief that the ultimate role of an incubator's screening process is to define the existence of a suitable fit between the mission and resources of the incubation program and the entrepreneur's business and needs. It becomes paramount for the incubator to provide support to clients that will most benefit from incubator services and that have a high likelihood of success, especially for incubators operating with limited staff and financial resources. As a result, the aim of selection is to evaluate the prospective client's potential capabilities to attain successful new venture creation (Lumpkin and Ireland, 1988). Supporting clients who will in turn support the incubator's mission helps the incubator establish a track record, a fundamental element for marketing the program, enticing new clients and guaranteeing the program's financial stability and longevity.

Effective client selection represents a critical part of the business incubation process. Business incubators must be selective in nature to ensure the most efficient channeling of their limited resources to the most deserving new ventures.

Various studies acknowledge the importance of selection for successful business incubation, whereby efficient selection is not only identified as a component of the business incubation process but as a critical business incubation success factor (Bizzotto, 2003; Lumpkin and Ireland, 1988).

The selection of quality start -ups, that is new ventures with high growth potential, increases the chances of business incubation success. As a result, the importance of selection for business incubators lies in that it enables the identification of new ventures with potential for growth and success (Bizzotto, 2003, Lumpkin and Ireland, 1988).

3.2 The Benefits of an Effective Client Selection Process

According to Walker (2004), the client screening process is a powerful mechanism for business incubators. A well-designed screening process can lead to the incursion of promising client companies and a steady outflow of successful graduates. It can aid in the attraction of entrepreneurs with the skills, motivation and passion to take an idea to fruition and pool a mix of clients generating synergies within the incubator. Furthermore, Cammarata (2003) also outlined the numerous benefits of an effective client selection. An effective selection process allows an incubation program to secure an optimum combination of client companies; it maintains a smooth and efficient flow of businesses into a program; it identifies those truly committed to and capable of business growth and success; and it aids selection committees in determining who benefits from the limited staff time, space, and equipment of the incubation program.

3.3 Client Selection Practices of Successful Business Incubators

Despite the fact that selection processes used in different incubators have similar goals, the stages and the criteria used differ greatly among incubators. Ganamotse (2011) defines selection criteria as the "yard stick" used to validate the decision to accept entrepreneurs and ideas for business incubation whilst selection practices refers to the proclivity of business incubators to utilize specific criteria for the selection of businesses for incubation.

Many researchers have attempted to discover the selection practices and client selection criteria used amongst successful business incubators.

For example, Lewis et al. (2011) highlighted practices highly correlated with incubator client success. They posit that among the practices most characterized by high-achieving programs were selecting clients based on cultural fit, selecting clients based on potential for success and reviewing client needs at entry. Further research done by Cammarata (2003) went on to describe the steps involved in the client selection process for business incubators. She explains that the first step in an effective, strategic process is to create a distinct list of admissions criteria, for example business type and growth potential. Setting these specific standards, she explains, provides focus for committee members in their selection of the most appropriate applicants for the incubator. The next step in the selection process is generally an informal exchange of information, either in the form of a formal application or business plan submission. Applicants meeting the incubator's basic qualifications would then be invited for a formal interview by the selection committee, whereby the applicant's needs are clarified and it is determined whether the program is capable of meeting those needs. In addition to this, participation on a given selection committee should be determined by the type of businesses being interviewed. A thorough discussion of expectations should also be incorporated in the selection process, inclusive of a review of graduation criteria and any contracts clients are required to sign.

Further research on successful business incubators conducted by Wolfe (in Bizzotto 2003) found that the Austin Technology Incubator, located in Austin, Texas, employs a strict selection process. Firstly, the company is required to submit an executive summary to the incubator by email or hard copy, after which, an internal review is then conducted by the incubator. If the assessment is positive, a presentation is scheduled, whereby the prospective company is required to deliver a 10-minute PowerPoint presentation covering the business plan. Once successful at this stage, the company is asked to present their business idea to a success committee, who meets one to two times per month and consisting external industry experts.

A study on the selection process of business incubators conducted in 2002 by the United Nations Economic Commission for Europe (UNECE) (in Bizzotto 2003) found that in Australia, the five most important tenant entry criteria were the projected viability of the business; the ability to pay for rent and space; compatibility of business to incubator objectives; completion of the application package; and projected growth potential of the business.

In addition to these findings, Walker (2004) investigated the selection criteria used at the Toronto Business Development Center in Toronto, Ontario, Canada, finding that the criteria comprised a set of "musts." In order to be accepted into the incubator, a company "must" be a new or emerging business, "must" not be competitive with existing clients, and "must" complete a business plan. If any of these requirements were not met by an applicant, they were not accepted into the program. The incubator also defined its "wants" – qualities that are not identified as crucial but are preferred in a client. These included, among other qualities, a sound level of current financing, a high capacity for managerial competence, and products and services that have a positive environmental influence. Applicants are rated in line with these wants on a scale of one to ten and are each rated according to its significance to the program. For example, an applicant's capacity for managerial competence is rated twice as heavily as whether the client's product or service has a positive environmental impact. These weighted scores are then summed to attain an overall score that the incubator can use to compare applicants. Through the application of this methodology, a company lacking financing upon application to the incubator, but having an exceptional group of employees, can still be accepted as an incubator client.

According to Colbert, Adkins, Wolfe and LaPan (2010), business incubation programs' client selection criteria include coachability, viability, industry sector, and stage of development and growth potential. A best practice incubator positions itself to source the top clients through the implementation of a comprehensive application and screening process, demanding disruptive or non-performing clients to exit the incubation program whilst focusing on working towards graduating successful businesses into the community.

To add to the list of criteria used by business incubators for selecting tenants, Kumar and Kumar (1997) highlight the importance of job creation, local ownership and the ability of the tenant company to pay its own operating costs, provide a unique opportunity, be a new startup enterprise with fast growth potential, have clients who are in some cases required to have a business plan, and have business liability insurance.

In addition to these findings, Colbert et al. (2010) also noted the existence of variations in the criteria used for admission to an incubator program; these variations being dependent on the incubator's mission as well as their stage of development.

Despite these variations, they proposed that an application and screening process should determine ten main things about a prospective client. Firstly, the process should determine whether the client possesses a viable business proposition. Secondly, it should determine whether there exists a management team ready to accept the incubator's support and participate in the incubator's internal community. Thirdly, it must assess whether the client will be beneficial to the economic development of the community, either through job creation, the provision of new business opportunities, the commercializing of technologies, the increase in community competitiveness, the diversifying of local economies, the creation of wealth or through the provision of entrepreneurial opportunities for low-income or other demographic groups. The process should also determine whether the client will directly compete with an existing incubator client; can pay rental charges and other fees while sustaining positive cash flow; is aligned with the industry niche or sector focus areas of the incubator; has requirements the incubation program and its service provider network can fulfill; will meet the needs of any incubator partners the company may need; will meet graduation benchmarks and positively contribute to the incubator culture.

4.The Rationale of the Integrated Business Incubator System (IBIS) Programme in Trinidad and Tobago

The National Integrated Business Incubator System (IBIS) started in October 2011 as the first business incubator system in Trinidad and Tobago and is managed by National Entrepreneurship Development Company with support and technical advice from the Enterprise Development Division of the Ministry of Labour and Small and Micro Enterprise Development (MOLSMED). A Business Advisory Board comprising key stakeholders in the State Agency network and the business enterprise sector also plays a governing and guiding role for the programme. IBIS is designed to provide MSEs with significant physical infrastructure, financing, operational support and networking to develop them into sustainable and competitive businesses. IBIS comprises a network of community based business incubators aimed at benefitting new and existing MSEs as well as the communities in which these enterprises are situated. IBIS focuses on fostering entrepreneurial skills and the necessary capabilities to be able to work towards creating an innovative business proposition that can be nurtured into a successful business within a world-class Business Incubator system.

The primary objective of IBIS is to achieve economic diversification based upon a thriving private sector and the business incubation programme has created an enabling environment for successful entrepreneurship. It is a comprehensive system that focuses strongly on assisting the latent entrepreneur and capitalizes the opportunity for achieving successful outcomes for a wide range of business sectors and entrepreneurial challenges.

IBIS is outcome driven to facilitate and encourage the establishment of successful Sustainable Graduate Businesses that are:

- (a) Innovative, entrepreneurial and globally competitive and
- (b) Value and wealth creators while generating high quality employment opportunities

The programme has 6 components in its business incubation process; client selection, programme orientation, entrepreneurship training, business plan preparation, business incubation and post-incubation.

To date, out of the 110 candidates who were selected and have completed their business incubation training, over 50% have successfully graduated to the incubator phase. IBIS graduates have established new businesses, in areas such as Waste Management; Agro-processing; Forestry and Fisheries; Fashion, Health and Wellness and Information Technology while persons have received support in the incubator phase including seed capital, equipment financing, laptop and mentoring services.

IBIS applies the international standard for a sustainable graduate business as an enterprise with successful trading and expansion activity for a minimum of 3.5 years following graduation from a Business Incubator.

5. The Client Selection Process of the Integrated Business Incubator System (IBIS) Programme in Trinidad and Tobago

The Client Selection process of IBIS strives to identify applicants who have the requisite passion and commitment coupled with a feasible business concept that can be nurtured within the incubator environment and will eventually contribute to the development of the respective communities. There are two (2) main screening variables, namely the Candidate and the Business.

The specific characteristics of the candidate variables include commitment to the establishment of the business enterprise, their prior education, training and experience relevant to the business idea that is proposed and their motivation for wanting to be a business owner. The candidates are also asked to provide a professional reference who can attest to their character and the candidate's ability to manage a business enterprise.

The specific characteristics of the business variables include the potential for economic impact of the initial business idea upon the community (including job creation and poverty alleviation) as well as the contribution for positive economic impact of the initial business idea upon the wider national context and finally the possibility for innovation and value-adding to the initial business idea.

These variables are assessed in an interview process and evaluation scoring matrix where the top twenty five (25) candidates achieving 70 points and over in each community will be accepted to begin pre-incubator training. The Interview Evaluation Panel usually comprises three persons - an Entrepreneur who is a Captain of Industry, a NEDCO Loans Officer and a member of the IBIS Management team. The interview process is independently monitored and assessed by the state via the Monitoring and Evaluation unit of the Enterprise Development Division. Those applicants who are not accepted to the programme are diverted to another external business development or technical training institution, provided that one exists. In this way, rejected applicants can chart their course for re-entry to IBIS at a later point in time.

6. Lessons Learnt from the Client Selection Process of IBIS in Trinidad and Tobago

The IBIS programme has made significant steps in increasing the supply of dynamic entrepreneurs and allowing rural communities to engage in business enterprise development. The experiences and lessons learnt during the implementation process provide a platform for deriving strategies and key points of interest for the field of business incubation and the client selection process for a business incubator.

These intervention areas can be summarized as follows:

1. *Staff Selection and Orientation*- In a similar way that the selection of business incubation clients is critical to the success of the business incubator, so too is the selection process for the Management and staff of the business incubator. The management and staff of the programme must be assessed at the recruitment stage to ensure that prospective staff members understand the goals and objectives of the business incubator and have the necessary level of motivation and passion to take an active role in the business incubation process. The staff of any business incubator also needs to devote extra effort to orient themselves to the specific requirements of their clients and be committed to a customer relationship management process and system within the business incubator. This would foster a strong relationship with the stakeholders within the business incubation eco-system and build a level of trust and credibility which can be an asset during and after the business incubation intervention.
2. *Community engagement* - Business incubators that are operating within a localized community context need to interface with the key stakeholders embedded within the community infrastructure to assist in the marketing and client identification process. These stakeholders may include civil service groups such as Non-governmental organizations, localized state agencies and social support services. This nexus often has a wealth of information on the community's culture, developmental needs and challenges, resource availability and social stratification. This knowledge when shared can allow for a recalibration of the business incubation programme so that it is in closer alignment with the realities of the community and the entrepreneurs needing support.
3. *Communication Strategy*- The selection communication strategy must be aligned with the goals and expected outcomes of the programme. All Communication materials must be developed to ensure that prospective applicants all have clarity on the characteristics of business incubates and the type of innovative and value added business enterprises or sectors that would be supported in the business incubation system. This can assist in culling from inception those entrepreneurs who may not be a best fit to participate in the programme and allow for a tighter use of business incubation resources in the selection process.
4. *Early Entrepreneurial Linkages*- The business incubation programme should have a level of flexibility to encourage incubates to connect with successful entrepreneurs as mentors when needed, as opposed to the end of training or during incubation.

Candidates would be at different stages along the entrepreneurship continuum and the client selection process should have a feeder system to fast-track entrepreneurs directly to experienced mentors in order to boost their business enterprise efforts.

5. *Client Diversion Strategy*- The reality of the demand and supply equation in business incubation may allow for a high degree of competitiveness for limited placement opportunities. However entrepreneurial activity should be encouraged on a consistent basis and a strategy for client diversion forms a critical component in a client selection toolkit. This means there should be connectivity and collaboration within the entrepreneurial eco-system to support business incubation at different levels.
6. *Establishment of Key Performance Indicators*- To ensure best practice use of business incubation resources milestones and KPIs should be developed for incubation clients. Such KPIs can include achievement of core business objectives, establishment of a sound business structure in terms of organizational layout and design, establishment of key networks, partners and prospective clientele and achievement of financial returns on investment.

7. Conclusion

The concept of business incubation is here to stay and is viewed as a positive strategy to foster socio-economic development and the creation of a stratum of dynamic and sustainable business enterprises. The process of business incubation also provides an opportunity for the entrepreneur to carve out a space in the market by the provision of a nurturing environment that increases the success rate of fledging business enterprises. However the success of a Business Incubator is dependent on the inputs received and the operating transformation processes to engage and push the entrepreneur towards sustainable outcomes. The Client Selection strategy plays a major role in giving a Business Incubator programme a solid platform for support and realization of core objectives. While the Literature has suggested diverse approaches, the general consensus is that the client selection process can be tailored to the entrepreneurial eco-system of the business incubator. From the client selection experiences of the IBIS programme in Trinidad and Tobago, it was revealed that staff selection, communication and community strategies, early entrepreneurial linkages and a client diversion system are main aspects of an effective client selection system for a business incubator.

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