

**AN EVALUATION OF THE ROLE OF BUSINESS INCUBATORS AND ACCELERATORS IN INDIAN  
START-UP ECOSYSTEM.**

**MRS. HEMALATA RADHAKRISHNA<sup>1</sup>,**

ASSOCIATE PROFESSOR

REVA INSTITUTE OF MANAGEMENT STUDIES

BANGALORE

**DR. PATEL NAGARAJ GOUD<sup>2</sup>**

ASSOCIATE PROFESSOR

H.K.E. SOCIETY'S SREE VEERENDRA PATIL DEGREE COLLEGE

BANGALORE.

**ABSTRACT**

*Start-ups need support and encouragement from various perspectives during the initial phase and subsequently the growth phase, till establishment on firm footing. The hand holding and support is more critical for technology based start-ups. There are several examples in advanced countries and also in India where successful start-ups have grown into large companies and even large trans-national corporations. A healthy ecosystem will help more of our technology based start-ups to scale up to viable business enterprises.*

*A **start-up incubator** is a collaborative program designed to help new start-ups succeed. Incubators/Accelerators help entrepreneurs solve some of the problems commonly associated with running a start-up by providing workspace, seed funding, mentoring, and training. The sole purpose of a start-up incubator is to help entrepreneurs nurture and grow their business. Start-up incubators are usually non-profit organizations, which are usually run by both public and private entities. Incubators are often associated with universities, and some business schools allow their students and alumni to take part in these programs. There are several other incubators, however, that are formed by governments, civic groups, startup organizations or successful entrepreneurs.*

*This research paper attempts to identify and enumerate the role played by Start-up incubators/accelerators in sustenance of a Start-up initiative. Incubators/Accelerators are generally strongholds of the support system which nourishes the Start-up to find their feet and grow step by step in the harsh and competitive business environment.*

**Key words:-** Start-ups, Incubators/Accelerators, Ecosystem, entrepreneurs, mentoring

## **1. Introduction**

**Business incubators/accelerators** are systems created to support the successful development of entrepreneurial companies through a range of business support resources and services, developed and organised by incubator management and offered both in the incubator and through its network of contacts. When it comes to the organisation structure of the incubators, the services rendered by them or the type of clients they serve each one is different from the other. The stakes that a business will stay for a long term after successful completion of incubation are quite high. Incubators differ from research and technology parks in their dedication to startup and early-stage companies. Research and technology parks tend to be large-scale projects that house everything from corporate, government or university labs to very small companies. Most research and technology parks do not offer business assistance services, which are the hallmark of a business incubation program. However, many research and technology parks house incubation programs.

Business incubators/accelerators have proliferated since their emergence more than 50 years ago, evolving to include a range of incubation practices that deliver critical value to enterprises. The process provides entrepreneurs with an enabling environment in the start-up stage, helps reduce the costs associated with launching an enterprise, increases the confidence of the entrepreneur and helps link them to the resources and networks required to scale their enterprise. In other words, business incubation accelerates enterprise growth, saving time and money and generating social and economic benefits than would otherwise be the case.

Business Incubators incubate ideas, help in product development and provide seed funding whereas Business Accelerators provide mentorship to companies with atleast a ready version of the product, helping them to scale up.

### **1.1 Statement of the problem**

The Incubation environment in India lags behind when compared with that of countries like the USA, China, Brazil, etc. Majority of the incubators offering incubation program lack structured mentoring. There is a mismatch when it comes to the start-ups expectations from the incubators and the incubators offerings.

### **1.2 Objectives of the study**

- To analyse the relationship between Start-ups and Business Incubation.
- To study the role of incubators/accelerators in start-up ecosystem.
- To explore the challenges faced by business incubators.
- To understand the support extended by the government towards incubators/accelerators.

### **1.3 Need for the study**

In the developed and developing economies the failure rate of new small businesses in their initial years is high. This can be attributed to the competitive environment within which these small businesses are launched and also the effectiveness of the specific business idea. It can also be due to the lack of experience of the entrepreneur who is launching the business and the deficiencies in the environment in which these business function like shortage of capital, legal difficulties, lack of adequate information, etc. The governments have initiated a wide range of initiatives in order to try and reduce business failure rates through addressing the problems in the environment i.e. special loan funds, removing legal obstacles, reducing government administrative procedures and speeding up their operation and also by assisting the new entrepreneurs to tackle their lack of experience through various training programs, advisory and support services, etc. Viewed in this backdrop, the question that arises is whether the business incubators remain steadfast in their commitment towards the incubation stage of start-ups.

## **2. Review of literature**

- i. Masutha and Rogerson (2014) and Dubihlela and Van Schaikwyk (2014) point out that Business Incubators are one of the strategic tools for helping entrepreneurs during their start-up phase. These authors also point out that in both developed and developing countries, incubation is viewed as a vehicle to reduce the high mortality of incubated business.
- ii. Business Incubators are essentially organizations that help to increase survival rates of innovative start-up companies and support the entrepreneurial ventures. However, like business incubatees, incubators also face a number of challenges (Lose & Tengeh, 2015; Tengeh & Choto, 2015).
- iii. Supporters of incubation assert that the process can help protect incubatees from competitive forces of the external environment and increase the likelihood of short-term survival, others dispute that this same process can weaken a firm's ability to compete and survive when graduating out of the incubator (Amezcuca 2010).
- iv. Khalil and Olafsen (2010) have defined business incubation as the process aimed at supporting the development and scaling of growth-oriented, early-staged enterprises. According to the authors, the process provides entrepreneurs with an enabling environment in the start-up stage, helps reduce the costs associated with launching an enterprise, increases the confidence of the entrepreneur and helps link them to the resources and networks required to scale their enterprise.

### 3. An overview of the business incubators/accelerators

Incubators vary widely in number of factors. Their sponsors vary from state, economic development group, university, business, to venture capitalist, the objectives can either be empowerment or technology commercialization, the location varies from urban, suburban, rural, to international, sectoral focus(technology and mixed, now including kitchen and arts incubators) and the business model can either be not-for-profit or for-profit.

#### 3.1 Business Incubator Configurations

Business Incubators typically utilize a combination of three types of revenue models:

**I. Landlord Model:** The first revenue model incorporates the revenue from rental income from tenants and other revenues derived from client fees for consulting and other services. This “landlord” model can be financially self-sufficient, given “free” buildings and minimum economies of scale.

**II. Equity based Model:** The second revenue model involves the incubator taking an equity position in its more promising client firms and has the potential to generate revenues from sharing in client success or royalty agreements on gross sales and brokerage fees on raising finance. This method however requires substantial initial investment and a great deal of patience, as it may take up to 10 years to generate revenues.

**III. Sponsor Funding based Model:** The third, and most common, method is to rely on ongoing sponsor funding, such as the university, government at the federal / state / local levels, of private foundation or industry support.

In United States, the most common form of incubator model found is University Based Incubators. In Indian Context, the urban-based Technology Business Incubators (TBIs) have scope to generate decent income through the rentals and allied services offered to tenant companies.

#### 3.2 Identifying Start-ups and Selection Criteria

The incubator manager is presented with a time investment portfolio which contains three parameters:

- i. Which incubator clients are likely to generate the best outcomes from the investment of incubator manager time;
- ii. What form of intervention is most appropriate for each client; and
- iii. An incubator manager can only work intensively with a maximum of about six clients at any one time.

More than a passing familiarity with the general business status of an enterprise is required to help make the correct intervention decisions. This requires a comprehensive business plan which serves to guide the strategic development of the client in question.

#### 3.3 Incubation Impact on Start-up Eco-system

Business Incubators have deep impact on start-up eco-system and its stake holders. At macro level

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it has a deep impact on economic growth and at micro level it helps create multiple jobs, wealth and innovative ventures. The benefits of a well-managed incubator can be many-fold for different stakeholders such as:

- i. For Incubatees, it enhances the chances of success, raises credibility, helps improve skills, creates synergy among client-firms, and facilitates access to mentors, information and seed capital.
- ii. For Governments, the incubator helps overcome market failures, promotes regional development, generates jobs, incomes and taxes, and becomes a demonstration of the political commitment to small businesses.
- iii. For Research institutes and universities, the Business Incubator helps strengthen interactions between university-research-industry, promotes research commercialization, and gives opportunities for faculty/graduate students to better utilize their capabilities.
- iv. For Business, the Business Incubator can develop opportunities for acquiring innovations, supply chain management and spin-offs, and helps them meet their social responsibilities.
- v. For the local community, incubator creates self-esteem and an entrepreneurial culture together with local incomes as a majority of graduating businesses stay within the area.
- vi. For the international community, it generates opportunities of trade and technology transfer between client companies and their host incubators and a better understanding of the business.

### 3.4 Business incubators/accelerators across the globe

Business incubators originated in the United States of America and the first incubator came into being in an abandoned Massey Ferguson manufacturing plant in Batavia in 1959. A number of initiatives were undertaken between 1985 and 1995 to strengthen the incubation movement and as a result, it evolved into an ecosystem with a plethora of models ranging from public to private incubators.

Table showing the number and the type of incubators/accelerators in top 5 countries across the globe:

Country	No. of incubators/accelerators	Type of incubators/accelerators
China	2400	Government supported, Corporate, Academic
USA	1500	Incubators, Profit accelerators, Non-profit accelerators, Government supported
India	140	Corporate, Independent, Academic, Government supported
Israel	130	Corporate, Government supported, Academic, Venture capital based
UK	50	Independent, Academic, Corporate, Government supported

Thus, business incubation centres have not only grown in numbers and geographic spread, but also in terms of its impact on promoting entrepreneurship, job creation and economic development across the world.

### **3.5 Business Incubators in India**

In India there are more than 140 incubators/accelerators and the year 2016 saw a 40% year-over-year growth in their numbers. Bangalore, National Capital Region and Mumbai continue to be the leading hubs which account for more than 40% of the incubators/accelerators. Tier 2 and Tier 3 cities are seeing traction with 66% new incubators being set up in these cities. Unlike UK where more than 60% accelerators are located in London, India is balancing growth between Tier1, Tier 2 and Tier 3 cities.

Incubators/Accelerators have taken up the responsibility of solving India centric problems across sectors such as agriculture, healthcare, education and banking. In agriculture sector, they are focusing on technology such as mobility and Internet Over Things to address India's agricultural problems. In healthcare sector, incubators/accelerators are finding new ways to deliver health care and enable health-tech start-ups. In education sector, they are enabling ed-tech start-ups to solve India's problems in education sector. In banking sector, the incubators/accelerators are supporting fin-tech start-ups in finding effective means of conducting banking transactions through mobile devices.

### **3.6 Government's contribution towards incubators/accelerators**

- i. Setting up/opening incubators :** Establishing incubator/accelerator programs by either inviting global incubators/accelerators to set their programs in the state or by providing own space and areas for the same.
- ii. Partnership with Industry leaders :** Partnership with Industry bodies as well as successful incubators in order to replicate the successful 'Funding and Mentoring Models'.
- iii. Incubator management :** Government in some cases closely monitor the proceedings of the supported incubators to better manage them.
- iv. Recognition through awards :** Felicitating entrepreneurs and accelerators with awards.
- v. Supporting colleges and universities :** Establishing incubators within colleges and universities to support young budding entrepreneurs.

### 3.7 Success Metrics for Incubators/Accelerators

Incubators/Accelerators globally rate themselves across 3 major parameters i.e., Financials, Training and Mentoring and Management.

Under the parameter Financials, the key performance indicators are -

- Number of start-ups funded
- Number of exits in the form of acquisitions, mergers and IPO's
- Success rate of start-ups
- Number of investors associated with specific incubator/accelerator.

Under Training and Management, the key performance indicators are -

- Incubators/Accelerators having global pool of mentors with diverse backgrounds
- Incubators/Accelerators providing one-to-one interaction with mentors and average time spent by them
- Number of events such as investor dating events, roadshows with prospective customers and industry meets.

Under Management, the key performance indicators are -

- Number of start-up applications and enquiries received
- Start-up satisfaction.

## 4. Challenges faced by incubators/accelerators

- **Mismatch in expectations** – Differences observed in business ideas/models as compared to on field execution increases challenges for incubation/acceleration.
- **Evaluating start-ups is a big challenge** – Volume of start-up applications is quite high in India, making the process tedious and time consuming as compared to the US where benchmarks are well defined.
- **Limited time period for incubation/acceleration**

### 4.1 Challenges faced by regional incubators

- **Lack of mentors** – Regional incubators face this challenge since majority of them are present in metropolitan cities.
- **Stress on faculty members** – Lack of mentors places huge stress on faculty members to run the entire program end to end.
- **Lack of Infrastructure** – Regional incubators lack basic infrastructure in terms of internet connectivity, research labs, etc.
- **Limited contacts with Industry** – Regional incubators have limited contacts with venture capitalists, angel investors, corporates, etc. delaying the start-up journey by several months.
- **Limited access to funding** – Majority of investors are present in metropolitan cities which poses a challenge to rope in prospective investors.

## 5. Conclusion

Incubators and Accelerators continue to play an important role in the growth of the Indian start-up ecosystem. Witnessing a 40% year-on-year growth in the number of incubators and accelerators in India, more opportunities are now available to start-ups. Tier 2/Tier 3 cities are also seeing traction with 66% new incubators established in 2016, thus impacting the roots of entrepreneurial ecosystem. Academia plays the most crucial role in the growth of incubators with 30 new academic incubations established in 2016. In addition to this, initiatives like entrepreneurship courses, student start-up clubs, investor summits & deferred placements offered by colleges and universities is driving the growth of student start-ups in the country. Inclined with the "Make in India" initiative, many academic incubators are focusing on manufacturing start-ups as well. Energy, health-care and manufacturing are some of the key focus areas of most of the academic incubators. On the other hand, corporate and independent accelerators enable mature start-ups to get access to local as well as global customers, validate ideas, scale operations, get networking and funding opportunities. The two most important trends in the Indian incubator and accelerator ecosystem are partnership-driven and sector-specific incubators and accelerators. Academia, Industries and Government are coming together to set up sector specific accelerators and incubators, for example, GE's global healthcare accelerator - Five.Eight, Pfizer and IIT-D's incubation accelerator for healthcare start-ups, SBI and IIT-B's incubator for Fin-tech start-ups. Such partnerships will provide a mature mentorship to start-ups which could further drive the growth of quality products. Given the impetus by academia, government, and corporates, Indian incubator and accelerator ecosystem is expected to grow manifold over the next few years. Initiatives by the central and state governments will trigger the growth of incubators and accelerators in tier 2/3 cities and with corporates eyeing start-ups for innovation, more and more sector-specific incubators and accelerators will continue to emerge in future.

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