

Business Incubators as a Factor for the Development of SMEs in Kosovo

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Abstract

This paper treats the role of business incubators in the increase of small and middle enterprises in Kosovo. Business incubators offer the opportunity of growth of SMEs in the start-up phase by creating a comfortable supportive environment for a certain time since their establishment. According to the literature, the business incubator is an important instrument for local, national and beyond economic development. Knowing the difficulties that start-ups face, business incubators enable start-ups to have access in: managerial assistance, mentorship, finances, Office space for the lower price than the market price, flexible rental, technical support services, common management services and secretary as well as other support services. Their opportunities are welcomed and hopeful for the initial phases of the development of SME in Kosovo. The purpose of this paper is to estimate the role of incubators and their impact on business development in Kosovo using the analytical approach. To achieve the objective of this paper, we have analyzed data from existing literature of various authors and reports for the role of business incubators. According to results derived from this paper, we came to a conclusion that business incubators are the main factor for the development of SME and consequently, overall economic growth in Kosovo.

Keywords: Business incubators, SMEs, development, start-up, Kosovo.

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Introduction

Nowadays, knowledge and advancement of technology are the foundations of economic development. SMEs play an important role in the growth of innovation and creativity, as well as overall economic development. So, which is the importance of SMEs in the economic development? SMEs are generators in the employment growth, the development of healthy competition, increased innovation and increased market flexibility; therefore they enable the functioning of a healthy economic system. Many ideas for starting a business are vanished in the initial stages due to lack of adequate information, the inability for financing, lack of managerial experience, the high cost of starting a business and so forth.

On the average, one out of three new European enterprises does not reach the second year of their existence, whereas 50 to 60% do not survive the seventh year (Aerts, K., et al 2007). It is worth mentioning that the main problems SME faces are financial and managerial problems, the lack of which leads to business failure. Starting a new business is difficult since around 55% of them fail in the first 5 years, around 17% of new businesses leave in the first year of their founding. According to (Eurostat 2016), around 83% of enterprises created on 2011 survived on 2012 whereas over the years gradual decreased is marked where only 45% of the enterprises that were created on 2007 were active on 2012.

These bitter realities of business development show the need for creating supporting instruments of businesses in the early stages of their life. A convenient way to support SME which is being used more and more are business incubators which are considered as a form of modern business support. Business incubators are more prevalent in developed countries but also in developing countries have a special importance. INBIA (2016) estimates an existence of 7.000 business incubators the entire world, according to him 1.250 incubators were created in the USA from 1980-2012. There are 911 business incubators in the European Union (European Commission, 2002, 13). For the development of incubators and their number in Kosovo (search chapter 4).

So business incubators are recognized globally as the essential tool for the development of SME from whom today a considerable amount of resources are invested (Lose, T., & Tengeh, R. K. 2015). Business incubators aim to maximize the chances for success of firms in the start-up phase by creating a supportive environment to the problems faced by start-ups. Given the importance of SME in the economic development incubators it is seen that business incubators have crucial roles in nurturing the local and national economies.

Literature Review

In this part, we will present the definition of business incubators and economic benefits from the use of incubators by different authors. Historically, the first incubator was created about 57 years ago in Batavia, New York, in the United States in 1959 (Wiggins, J., & Gibson, D. V. 2003). And since then there has been a rapid development of worldwide incubators to see their positive impact on business development. So that

readers have a clearer idea of business incubator we will present their definition according to some sources. According to (Business incubator, 2016), the business incubator is defined as “An organization designed to accelerate the growth and success of entrepreneurial companies through a network of resources and business support services that can include physical space, capital, training, common services and network connections”. According to (Peters et al., 2004), business incubator creates a supportive environment for the commencement of inexperienced companies. According to Hughes et al. (2007), a business incubator is “an appropriate space to help small businesses to develop rapidly in the competitive market”. Whereas the Law on Economic Zones of Kosovo (Law Nr. 04/L-159, 2013) defines business incubator as “a building that provides an idyllic natural and business environments for young entrepreneurs and those who lack space cannot expand their capacities, which can be created within and outside the economic zones. In the economy business incubators represent the institution to avoid the failure of new businesses (Silvia, L., & Viera, M. 2015).

Enterprises benefit from business incubators

Business incubators are intended to increase the chances of success of firms by creating a supportive environment in their start-up stages. Incubators help new firms to survive and grow during the initial period when they are most vulnerable, thereby ensuring, management assistance, access to finance, business support services, technical services and shared office space (Stefanović, M., et al 2008). According (Lasrado, V., et al 2015) firms choose to join a business incubator because they expect to benefit from additional resources, new connections, and legitimacy, which help a firm to access the main actors as suppliers, investors, distributors, and markets. Start-up businesses have two main benefits of business incubators. On one side they are provided with physical resources such as office, Internet connection, and shared facilities for the reception, meeting rooms, and copying machines. On the other hand, they are assisted by accessing the intangible knowledge resources (Fukugawa, N. 2013). Next, we present some of the success stories of the impact of economic development incubators in different countries in order to show their effect on businesses.

According to estimates INBIA (2016) business incubators have helped strengthen the local economy, regional and national. Only in 2011, business incubators in North America have helped about 49,000 start-up companies, employing about 200,000 workers and generated about 15 billion dollars. Business incubators reduce the risk of small business failure. Historically, INBIA member incubators have reported that 87 percent of all firms that have graduated from their incubators are still in business. Incubators bring cost reduction start-up with about 40-50 percent (Scaramuzzi 2002). Similarly, the OECD countries have reported high survival rate ranging from 80-85 percent against 30-50% survival rate for businesses that are not incubated (Scaramuzzi 2002). Creation and operation of incubators great importance have paid Brazil also. According to ANPROTEC (2012), in 2011 Brazil had 384 incubators incubated 2,640 companies, 2,509 companies certified 1,124 member companies, and 45.599 jobs resulting from the activities of incubators. Business incubators are an attractive tool for economic development of local, regional and national by supporting new companies, and have the

ability to generate more jobs in comparison with other business programs (Mahmood, N., et al 2015).

Objectives of the Paper

In this paper, we intend to show the role of the Incubator in SME development in Kosovo. We show the impact of the incubator in the country's economy and the well-being of citizens in Kosovo.

We accomplish this analysis by answering the research questions:

- Which are the problems that faced the Kosovar businesses in their initial stages (start-up)?
- How do the incubators affect the development of SMEs in Kosovo?
- Which are the most important factors that stop incubators to realize their full function?

Methodology

The purpose of this paper is to present the role of incubators in the development of start-up firms in Kosovo. Through browsing the existing literature, books, online, scientific journals, national and international reports on the importance of incubators and their impact on start-up businesses as well as relevant statistics, we reflect the importance of incubators for economic development and the need for their development in Kosovo. For writing, this paper was used the analytical approach.

The development of business incubators in Kosovo

Need for the existence of business incubators is great, because in Kosovo there are conditions of "wild" for the initial operation of businesses. A few years ago the ministry of commerce and industry, established business incubators in Gjilan, Shtime, Decan and Glogovac as the contemporary way of supporting ESM. Currently, incubators of Gjilan and Decan are financed and managed entirely by the municipality (MTI 2013). According to the report, incubators in Gjilan, Shtime, and Decan were once functional business incubators, and business incubator in Business Park in Drenas has not ever worked.

In addition to these incubators, we have some non-profit organizations which provide the services of the incubator Centre for Business Establishment in Kosovo (BSC) - which is a specific type of virtual incubation services. Center for Innovation in Kosovo (ICK) - provides incubator, management, consulting and training to entrepreneurs and managers in business planning, accounting, finance, development and product/service, marketing/sales, human resources, development and technology transfer and the interaction with local, regional and international. MDA - Business Incubator Foundation is designed to support and accelerate the successful development of new companies, helping young entrepreneurs with resources and services. Young entrepreneurs will be trained through training for business development, technical and administrative support,

advice on management and business development, legal affairs, finance, and access to finance every year, the business incubator will support up to seven businesses new (MTI 2013).

The convenient location for business incubators is close to business parks, economic zones, universities or research laboratories so that enterprises have access to a wide range of facilities and has more opportunities within their businesses.

Problems faced by incubators in Kosovo

In Kosovo, there are a number of problems faced by business incubators established by Ministry of Technology and Infrastructures (MTI). Incubators operating in Kosovo who clearly lacks long-term planning, according to the managers of such business incubators MTI in Deccan and Guilin, over the years have provided financial support only ad-hoc, so there is no formal relationship between MTI and these structures to support businesses. Also, there is not a horizontal communication platform for the exchange of experiences between business incubators.

Poor management, incubators are not used for their intended purposes, for instance, premises of a business incubator in Guilin are leased to private companies while in Decan's offices used by various NGOs (MTI 2013). Kosovo incubators and SMEs still face a number of obstacles which lead to business failure. In the fourth quarter of 2015, the rate of failure of enterprises increased by 224% (-31%) in the third quarter of 2015 (Kosovo Agency of Statistics, 2015).

These data indicate that there is a lack of experience and motivation. Therefore in order to increase the success of business incubators the transfer of knowledge and experience from countries that have succeeded in their application is necessary. According to Verma, S. (2004) rental and service fees are the main forms of income for incubators. In Kosovo, the spaces in which incubators are placed are small which means it automatically without institutional support for funding incubators cannot function efficiently.

The most common problems that hinder the functioning of the incubators in developing countries by (Stefanović, M., et al, 2008) are: lack of financial resources available for nurseries; the challenge of finding qualified people to staff of incubators; lack of opportunities outside the organization's partner incubator; mentality of entrepreneurs; low confidence of entrepreneurs; general business environment could be less favorable; condition for the right to property may be less developed; some national cultures may be more risk-hatred; lack of capital and investors networks "angels".

Our analysis shows that the main problems of business incubators in Kosovo are, the lack of management with experience of incubators, small space defined for the incubator which reduce the possibility of production, the establishment of incubators in areas outside economic zones or away from, lack of funding after the two incubator under the management of the municipalities they have developed strategic plans for the development of incubators, the lack of an overall plan for the operation of incubators based on market demand.

The period of stay of business incubator

The process of incubation for start-up businesses should last for a certain period of time since the emergence of the idea up to the stage of business growth. The business incubator has to support the business by the time it passes stages of financial difficulties and creates the necessary capital to continue its activity itself. So it will have managerial experience and credibility to access funding.

The incubation period should support the business activities of the exploration phase, the emergence of the idea phase, the planning phase, the starting phase, the restructuring phase, to enterprise growth phase. The optimal time of residence business incubator should be 3 years after this period will suffice for a business to pass critical stages of business and after this time it is ready with his forces to face the challenge of competition market. Thus stay until new ideas turn into successful enterprises. By (Scaramuzzi 2002) incubation process lasts for 3-5 years.

Conclusions and Recommendations

In this paper, we analyzed the role of business incubators in the development of start-up firms in Kosovo. Since a significant number of companies fail in the first years after their establishment, the importance of business incubators in Kosovo as an instrument to reduce business failure and increase employment is emphasized. Business incubators are known about the process constructive in providing a wide range of services necessary for the support of start-ups.

Such as management support, financial support, physical infrastructure and equipment, common services, consultancy and training, marketing and business network access as suppliers, market, horizontal communication businesses. Given the incompetence of SMEs to self-standing in their initial stages, the creation of business incubators would be the right step towards ensuring economic stability in Kosovo.

However, their function in Kosovo faces some difficulties as lack of financial resources available for nurseries; the challenge of finding qualified people to staff of incubators; lack of capital; small defined space for the incubator which reduce the possibility of production, the establishment of incubators in areas outside economic zones or away from, the lack of long-term strategic plans for the development of incubators based on market demands. Business incubators are designed to provide programs to educate and develop businesses.

We recommend that you develop a strategic plan for the development of business incubators; become market research incubators and placed in appropriate spaces; increase institutional responsibility for the functioning of incubators; enable manufacturing business spaces which are incubated; organize trainings for employee training in business incubator; be aware entrepreneurs about the role of business incubators, design a strategy for the sustainable financing of business incubators which are under management at local or national level, since their attitude plays important roles in the development or failure of business incubators.

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