

BUSINESS INCUBATION AND PERFORMANCE OF START-UP: AN EMPIRICAL REVIEW

Megha Mohan

Assistant Professor, Tecnia Institute of Advanced Studies, GGSIPU

Dr. Sheenu Arora

Assistant Professor, Tecnia Institute of Advanced Studies, GGSIPU

Ms. Keenika Arora

Assistant Professor, Tecnia Institute of Advanced Studies, GGSIPU

Abstract

Startups in India have to face abundant difficulties before they set their foot in the market. A lot of them have entered Indian markets either as detecting a new market or through holes in the prevailing market or product lines. The history of startups in India falls into extreme ends. Some of them thrive to flourish and others flop to survive the competition. Incubators originated in school and Universities in the early 1940s with the primary objective to create SMEs and in return generate regional employment. As the years passed there was a gradual increase in their number, most of them being in USA and UK. This study is an attempt to review the role of business incubators to make startups run successfully.

Introduction

Incubators have witnessed accelerating growth from approx. 40 of them in 2016 to 140 in 2019. Out of these 30 incubators were established under the government initiative of "Startup India Standup India". Bangalore, Mumbai and Delhi-NCR being the centers with more than 40% of all the incubators focused in these cities. An incubator usually counsels a start up from 6months to 3 years, depending upon networking with investors, training etc. They understand the need of startups in the form of innovation finances, support functions, guidance and other resources. Though business incubators have been globally recognized as an essential tool for economic growth and development, incubators in India are still on the infant stage, they have not yet attained majority as international incubators. Some startups are favored by the market conditions paytm being one of them supported by Demonetization in India where people chose digital monetary transactions instead of standing in the long ATM Queues .Majority of startups dearth the experience and networks essential in order to raise, which gave rise to the Business Incubators. Business incubators offer budding entrepreneurs a wide range of resources and skills required to excel. Business incubators are establishments that offer startups shared operation space. Collaborative work with a guidance of mentor help the initiators of these start up an invaluable learning experience and open many gates to new opportunities in terms of financial support, shared equipment.

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Incubators in India

India is now at the third position in terms of number of business Incubators in the world. India has left Israel behind with 140 incubators. It is still to beat china and US with 2,400 and 1,500 Incubators respectively. Nearly 51% of them in India are run by educational Institutes, 9% by the corporate bodies and 32% are either independent or Government supported.

The Incubators in India focuses on startups from the industries such as Virtual Business Incubator that focuses on the start of online businesses, Kitchen Incubators that focuses on food industry, startup studio that focuses on networking portfolio companies etc. Incubators generally offer services like access to physical resources where the office space, computer networks securities, other infrastructure requirements etc. They also provide financial assistance in the form of arranging private firms, venture capital etc. It is expected from an incubator support to know the unique value proposition of the services. It is expected that the Indian incubator and accelerator ecosystem will expand multiple number of times over the next few years. Initiatives taken by the Central and state government will lead to the progress of incubators in tier 2/3 cities and with companies looking for technology start-ups, more sector-specific incubators will continue to transpire in the future. Keeping these entire aside the main function of an incubator is to help the entrepreneur generate positive cash flows. India have the business incubators are endorsed as either Technology Business Incubators which deals with the Consultancy in Technology and Startup Incubator which deals in promoting the new entrances with special emphasis on ascending the business, prototyping, IPRs and so on. The Basis for Development of Business Incubators-

The twin objectives of BIs in the developing nations are growth in the economy and increase research and Innovation. This leads to progress in the economy in terms of knowledge, globalization with local support and sustainable development (*Adegbite, 2001*). Business Incubators are acknowledged as the technique of creating and nurturing fresh businesses by providing those following services such as:

- Completely built-up space for office and factory space at affordable rates
- Counseling to the entrepreneurs , training and marketing
- Helps in innovation in the business ideas
- Generating positive cash flows
- Creating external network

Challenges by Business Incubators

In the developing countries like India, businesses incubators have to face many challenges including some are discussed below:

Access to Entrepreneurial Management - (Cullen *et al.*, 2014) making a choice regarding selection and attraction of effectively skilled and trained professionals to manage and look after the functioning of business is an important aspect for the success and growth of each business

incubator. Consequently it becomes a task for the startups in delivering quality and sustaining themselves in the long run. Human resource is one of the greatest assets for any organization, therefore it becomes important for an incubator to deliver creativeness and innovation within its functions. Thus investment in human capital becomes most important and helps the business to reach its target.

Lack of entrepreneurial Skills- The initial stage of the business is very crucial as the young entrepreneur lack the technical skills, management skills, Entrepreneurial skills. Due to absence of these skills, they tend to fail. (Grimaldi and Grandi,2005) Not much attention has been paid towards financial knowledge and efficiency which serves as a hurdle towards the progress of business incubators. In addition to this innovation and creativity remains the challenge for the incubators in the developing countries.

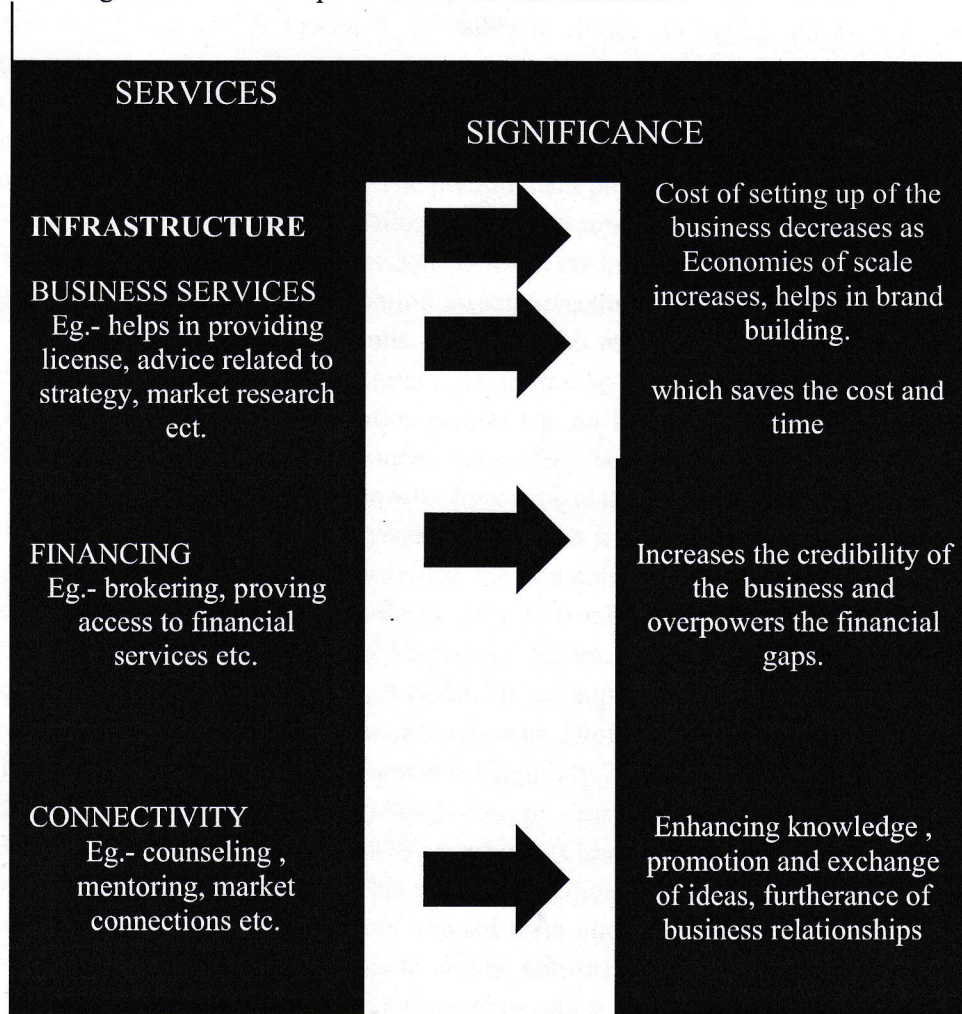
Access to Technology- (Caleb, Olaopa and Siyanbola,2012)Developing nations does not have much access to Technology-based services, face problems in acquiring resources. Ndedi,2009 suggested that challenges in the form of technology is supported by the point that these incubators must also offer businessmen with the information on suitable space, leases available in the market, primary services and equipment's that can be shared, tech-support services in addition to support in procuring necessary finance for sustainable development. Hence, in absence of technology the ability of the new businesses to grow and meet the requirements of its clients is hindered.

Access to Capital Funds and Sponsorship-

One of the good management indicators is the capacity of an incubator to appeal investors, raise funds and assemble capital that can be used to develop the incubator mode of incubator operation. This researcher agrees that it is important during the early years of operation in developing nations, mainly where business incubators are still emerging in gaining public support, and international tieups. Public business incubators are nonprofit establishments; thus, they are typically financially incubated by government assistances and earn regular charges from incubated individuals. In contrast to open business hatcheries, private BIs don't ordinarily get sponsorships and assets from open subsidizing. For this situation, private Business Incubators may need to rely upon their assets and sponsorship. The fundamental support needs to "become tied up with" the business hatchery's crucial targets, by evaluating the presentation, reason, and thought behind the objective, and by and large hatchery methodology. As business hatcheries increment both in created and creating nations, the up and coming age of hatcheries are relied upon to be benefit driven associations that have some expertise in a particular segment condition. This analyst likewise expresses that possibility of a benefit driven hatchery relies upon the impression of market disappointment and related troubles that enterprising endeavor aspect in acquiring subsidizing from supports.

Components of Business Incubators-

Following are the four components of Business Incubators



Source: Author's Creation

Process of functioning of business incubator-

The need of business incubator arises when an entrepreneur comes up with an idea or when he seeks an opportunity. He required certain knowledge, experience and skills to carry out the business. This was the stage of idea generation. Then comes the stage of conception where the budding entrepreneur involves himself in molding his ideas into a business. As the business grows it starts to continue and take a faster pace till it is an established business. Incubation is a continuous relationship between a business incubator and a budding entrepreneur where both faces ups and downs and manage to survive.

Incubation process helps the business to understand the survival and development need of the business. Any and all companies are not served by Business incubators as opposed to many business assistance programs. Entrepreneurs wishing to qualify for entry to an incubation program

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must apply. Standards for Approval vary from program to program, but then only those with viable business ideas and a feasible business plan are accepted.

It is this factor which makes it inflexible to dissect the accomplishment speed of emerged associations in inconsistency to general business perseverance statistics. Although the vast majority of the hatcheries offer to their clients the space for office and shared administrative organizations, the principal of a certifiable business unpropitious framework are the headings it provides for new organizations. The predominant piece of hatching programs is surveyed by the National Business Brooding Relationship in 2006 reported that they furthermore served partner or virtual clients. These associations don't abide in the brooding office. Part clients must be privately settled associations or opening period associations that have their own premises can be benefitted by incubation facility organizations. Virtual clients may be excessively remote from a bring forth office to contribute close by, therefore get prompting and other assistance carefully.

The measure of time an association commits in an agonizing framework can move extensively depending upon different components, including the sort of business and the business people's level of business capacity. Firms with long imaginative work cycles, for example, Life science, Bio-Technology, Medicare etc. require extra time in an agonizing framework than constructing agents, makers or trade associations that can immediately make a thing or administration and put them to organization available to be purchased to public. All things considered, hatchery customers go through nearly 1000 Days in a program. Numerous hatching programs set graduation necessities by advancement benchmarks, for example, organization incomes or staffing levels, instead of time such as 1)Common Infrastructure 2)Information Submission 3)Intellectual property 4)Consideration 5)Periodic assessment 6)Eligibility 7)Conflicts of interests and confidentiality of information. 8)Infrastructure 9)Admission process 10)Seed loan 11)Tenure in BI 12)Exit 13)Agreement 14)Disclaimer 15)Other services. *Campbell et al. (1985)* recognized to develop the first incubation process model. This model worked on four parameters that lead to value addition- Analysis of prerequisites which is applied to promoter's new business idea, second being the capital investment and admittance to skilled networks with the vision of venture capital. Third being the capabilities of the budding entrepreneurs and finally the environmental barriers.

A number of factors such as type of business, level of expertise of entrepreneur, competition in the market, management skills etc. decides the time duration the company spends with an incubator. Businesses belonging to life science industry such as bio-technology, medicare etc require long R&D and thereby spend more time with the business incubators as compared to manufacturers and traders where the companies can immediately produce and get their product to the market.

Government Support

Incubators continue to play a significant character in the Indian startup system's growth. As the number of incubators in India grows by 40% year-on-year, more opportunities are now available for start-ups. Tier 2/Tier 3 cities are also sighting momentum with 66 percent of new incubators set up in 2016, affecting the foundations of the business ecosystem. As per the Atal Innovation Mission, the government is setting up public and private Atal Incubation Centers (AICs) as well

as scaling up established incubation centers (EICs).13 AICs were approved each with an INR 10 core grant.6 EICs will also provide an INR Ten core grant-in-aid.

The state government has come up with their own provisions related to BIs. The govt. Of Himachal Pradesh Encourages the establishment of incubators in existing institutions, such as academic / technical universities (HPU Shimla, CSK HPKV Palampur, Dr. YS Parmar University of Forestry and Horticulture Nauni, IHBT Palampur, etc.), engineering institutions (NITs-IITs), technology centers (Tool Room), IIM Paonta Sahib, etc.

The State Government of Uttar Pradesh has teamed up with leading institutes such as IIT-Kanpur, IIT-BHU, IIM Lucknow (Noida), KNIT Sultanpur to create Incubators with the goal of fostering innovation and entrepreneurship. It is planned to create the country's largest incubator in Uttar Pradesh.State government is encouraging incubation in Uttar Pradesh. Every district in Uttar Pradesh is supposed to have an incubator. The establishment of incubators in Uttar Pradesh is supported by host institutions such as public and private academic, management, Research &Development institutes, organizations, on-profit organizations, corporates, and industry associations. Govt of Gujarat has developed technology based Indicators like icreate with an objective to generate quite good number of entrepreneurs. There is another incubator known as Center for Innovation Incubation and Entrepreneurship (CIIE) at IIMA which is actively supported by Govt of Gujarat.

Goa's government has provided for the provision of a total reimbursement of Rs. 1,00,000 per quarter for Internet connectivity costs, software licensing fees and cloud services fees for start-ups operating from their own premises or leased premises and not using facilities established by the state..Goa's government has provided for a two-year lease subsidy of up to Rs. 20/square feet per month for start-ups. This only applies to local start-ups. This reward is subject to an annual maximum of Rs.3 lakes. Funds from the Working Capital Fund would be given for the same Similar to these the governments of Tamil Nadu, Telengana, Andhra Pradesh, Karnataka, Chhattisgarh, Madhya Pradesh, have launched incubation support facilities to promote the startups and support the startup eco system in their respective states which in return leads to the development in terms of wealth creation and employment generation in their respective states.

CONCLUSIONS

In a present day society, business incubators are treated as a significant tool that has the potential to give support to business, help to last and grow. There are enough proofs to back the argument that business incubators improve the performance of the firms. Challenging further, the reviews show that the most affected measures of performance in order of importance is firm survival and positive cash flows in the form of growth in sales, job creation, creation of finance, networking. This paper supports the usefulness of incubators as a outline to improve the performance of the firms, re-enforcing the view that incubators act as an instrument that helps the business men in promoting and creating a new endeavor. There are certain evidences in support of incubators as influential tools to encourage and support business ecosystem, as a background for support and the propagation of new ventures. Governments of India should encourage to promote and establish incubators and shape their potential to upkeep evolving and budding ventures.

Including the initiative "Make in India," several educational incubators are also focused on start-up manufacturing. Power, health care, and manufacturing are some of the most academic incubators' key focus areas. For example, General Electronics' international healthcare accelerator – 5. Eight, Pfizer and IIT-Delhi's incubation accelerator for healthcare start-ups, SBI and IIT-B's incubator for Fin-tech start-ups – are approaching together to set up sector-definite incubators.

This commendation stems from the fact that as inveterate entrepreneurship promoters, the more incubator ability is built and the more government support, the more prepared they are, better is their contribution to the promotion of entrepreneurship. Indeed, budding entrepreneurs with new ideas would get impressive advantage if they take part in the incubation program as Input greatly intensifies their chances of survival, growth in income and employment. Also, this assessment motivates novel and growing businesses the advantage to reward themselves the backing, supervision, building networks, increase the resource base and get the access to consultation services by incubators. The value addition activities have the prospect of ameliorate their skill to arrange finance.. Knowledge flows from its existing network of experts should be developed so that incubates and prospective incubates can benefit from their survival opportunities. The study also recommends that occupants should not exceed their occupancy in an incubation program as the chances of survival after graduation are reduced.

Finally, potential incubators should be artistically focused on enlightening their market, management and financial tactics in order to increase their probabilities of acceptance in an incubation program as incubators focus on these aspects in the selection of companies to be incubated.

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