

KRZYSZTOF B. MATUSIAK

Business Incubators in Poland

The paper focuses on ten years of development of business incubators in Poland. The first concepts of incubators appeared independently in 1990. Totally, since the beginning of nineties 64 incubators have been established, from among which 44 are still acted at the beginning of 2001. In all Polish business incubators there operated approximately 1077 entities creating 6503 jobs. Over 700 firms, creating 3200 jobs have already left incubators and they develop very dynamically. Development of business incubators and other institutions of economic support is a success of local societies and persons directly connected with particular initiatives. Such institutions contribute to a new quality into local environment, activate local society, transferring new experiences and external support, and most of all assisting people in realising their business plans.

Democratic turn in 1989 began the transformation process and fundamental rebuilding of the economic system in Poland. Reconstruction of the fundamentals of market economy after 45 years of the communist experiment meant the necessity of implementation of the rules of competition as well as increase of role of private entrepreneurship. In such conditions, especially in the local perspective, there appeared interest in different types of institutional forms of entrepreneurship and self-employment support, such as business incubators, technology centers, entrepreneurship support centers non-bank loan and guarantee funds.

In Poland business incubators are defined as organizationally separated and based on real estates centers possessing their own space and offering

services supporting small and medium size firms. The main functions cover assistance in development of newly established firms as well as optimization of conditions for transfer and commercialization of technologies through:

- providing with office space for the economic activity;
- business support services, for example: financial, legal, marketing, organizational, and technological consulting;
- assistance in gaining financial sources;
- creation of suitable climate for starting economic activity and implementation of innovative undertakings, the so called synergy effects;
- contacts with scientific institutions and evaluation of innovative undertakings.

The main criterion of separation of this group of business centers is differentiated of the offer of space for rent or leasing for SME. The basic task for the incubator is assistance in creation and support in the preliminary period of operations of the small firm. This support covers:

- preferential charge rates increasing together with the period of staying in incubator;
- training, consulting, and information services;
- access to the common technical and service infrastructure.

Average period of stay in the incubator amounts to 3–5 years. At the end of this period economic conditions in the incubator (rent charges and fees) become similar to those in the neighborhood (outside the incubator).

The first concepts of incubators appeared independently in 1990, and Wielkopolska Business and Innovation Center in Poznan is treated as the first such a center in Poland. Within a short time there appeared the next centers in Gdansk, Cracow and Warsaw. Primarily, activities of the centers were oriented at firms implementing new products and technologies as well as at co-operation with scientific-research institutions. In the half of 1992 in Szczecin and Lodz first traditional incubators were created, oriented at supporting widely understood entrepreneurship, not only technology-based firms¹.

At the very beginning the initiatives were of local character and were taken by „hot-heads” who had the opportunity to get know with western experiences. As it is in the case of every novelty, they had to convince potentially interested persons about the objectives and effectiveness of their

¹ This paper uses statistical data and results of empirical research that have been conducted for eight years by the Institute of Economics, University of Lodz with the co-operation of the Polish Business and Innovation Centers Association. Detailed information can be found in four editions of the report on innovation and entrepreneurship centers in Poland.

operations. Implementation of different kinds of assistance programs, visits of experts and consultants as well as trips abroad of businessmen and administration activists had significant influence on growth of interest in such activities. At the very beginning this kind of ideas were treated rather cautiously, and organizational initiatives were often taken in order to gain easier access to assistance sources.

Many of the ideas that were formulated at the beginning of nineties were not implemented in accordance with assumptions due to financial and organizational limits. Large part of the centers was not able to cope with reality. However, this period was very important for the collection of national experiences and organization of teams that in the next years have not made mistakes of the pioneer period². Local authorities' activists, politicians and governmental officials needed time for understanding the new idea.

Improvement of climate for and increase of interest in innovation and business appeared only in the middle of nineties. The special role in popularization the idea and working out the domestic standards was played by program supporting the infrastructure development undertakings in Poland – „Micro-Enterprise Development Project – TOR#10”, realized in 1993–1998 by the Polish Government with the financial aid from the World Bank. The main aim of the project was to create in Poland a system of institutions actively supporting entrepreneurship, oriented at support for the unemployed, for people threaten with unemployment, as well as for people seeking their life-chance through starting up running their own businesses. The Ministry of Labor and Social Policy was a direct performer of the program, with assistance from the Ohio State University and the team of American and Polish specialists headed by dr Cathy Ashmore³.

TOR#10 was to strengthen the local non-governmental *non-profit* institutions to widen their activity in the range of:

- support for the unemployed and people threaten with unemployment, who have predisposition to become active entrepreneurs,
- integration of local circles around the active fight with unemployment,
- strengthening existing programs of the entrepreneurship development.

² One of measurable effects was the creation of the Polish Business and Innovation Centers Association that started information-popularizing, advisory, training, and lobbying activities.

³ See K. B. Matusiak, M. Mażewska, T. Niesiołowski, *Local system of entrepreneurship support*, Ministry of Labor and Social Policy, Warsaw 1998, pp. 5–19.

Co-operation of domestic and foreign specialists in framework of the project fructified with working out a model system of full service for newly established firms on the local market, based on three types of innovation and entrepreneurship centers – training and consulting centers, non-bank loan funds and business incubators. The main goal of created components for support in self-employment was the implementation of mutual functions in the integrated process of entrepreneurship promotion: consultations, training, advisory activity, preferential loans, and office space with suitable standard and equipment⁴.

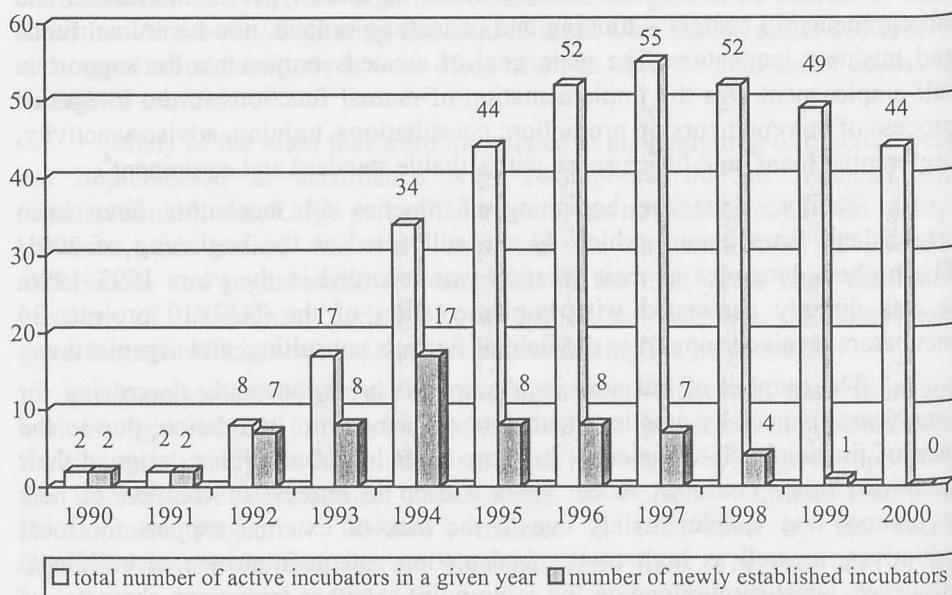
Totally, since the beginning of nineties 64 incubators have been established, from among which 44 are still acted at the beginning of 2001. The highest dynamics of their creation was recorded in the years 1993–1996. It was directly connected with implementation of the TOR#10 project. 34 incubators received support in the field of finance, consulting, and organization.

The number of business incubators has been constantly decreasing for four years. Especially smaller incubators are subject to liquidation, due to the lack of financial self-sufficiency. In some cases local authorities designed their space for other goals. In recent years a drop in interest in creation of new incubators was visible, mainly due to the lack of external support for local initiatives, as well as high costs of adaptation and maintenance of buildings. However, latest discussions on the issue point at rather temporary character of such a situation and it is said that in the nearest future one should expect new initiatives, especially in the regions threaten with high structural unemployment.

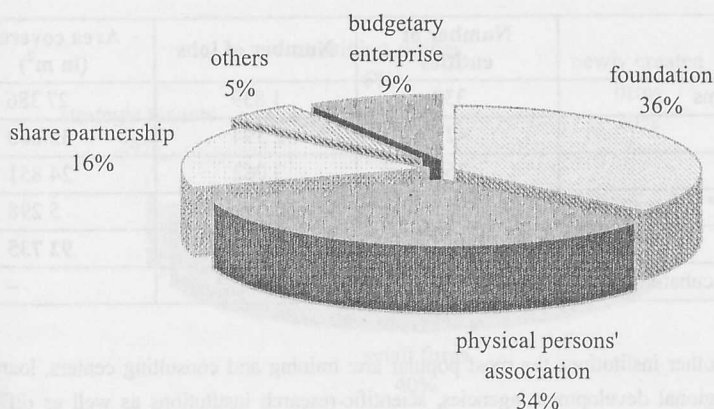
Over 2/3 of business centers operate in the framework of physical persons' associations and foundations, which are, according to the Polish law, the *non-profit* institutions. The form of share partnership or budgetary enterprise is rather rare. As a rule, in the structure of institutions that lead the incubators there exist other centers, created in order to activate the town or region, for example: training and consulting centers, local loan and guarantee funds, and business information centers. Their offer is complementary in relation to the activities realized in the incubator.

⁴ For more information see as above pp. 19–51 as well as conference papers: *Self-employment initiatives for the unemployed*. Regional conference, Polish Ministry of Labor and Social Policy, International Bank of Reconstruction and Development, Warsaw, November 21–23 1996, p. 183–210.

Figure 1. Qualitative development of business incubators in Poland



Most of the Polish incubators is located in large towns, with over than 100 thousand inhabitants, in traditional industrial regions facing the necessity of restructuring. Data presented in table 1 show that, on average, Polish incubator points at simultaneous improvement of basic economic parameters. The most dynamic was the growth in number of jobs (from 53 to 170) as well as in number of incubators' users (from 11 to 25). Statistical incubator takes up 3 075 m² (from 466 to 6 072 m²) of space, from which 73% is assigned for renting. Offered area is rented in 94%, and every second incubator is totally occupied and often there is a long list of candidates waiting for free place. Two thirds of them have at their disposal space above 2 000 m², defined according to international standards as a critic point in pursuing to financial self-sufficiency. Smaller centers are as a rule doomed to constant external financial assistance or development of specific profitable services.

Figure 2. Organizational-legal forms of business incubators in Poland**Table 1. Basic characteristics of the average business incubator in Poland in the years 1994–2000**

	1994	1997	1999	2000
Total area (in m ²)	2365	2423	2581	3075
Users	11	18	22	25
Newly established firms ^x	8	9	10	8
Jobs	53	90	108	170
Graduates' firms	2	5	11	16
Utilization of the space	49	75	88	94

^x not older than one year at the moment of entering the incubator

At the beginning of 2001 in all Polish business incubators there operated approximately 1077 entities creating 6503 jobs (table 2). All users can be divided into three categories:

- newly created businesses – not older than one year of age in the moment of entering the center,
- remaining small firms with all relief and preferences,
- strategic tenants – paying commercial rents from the very beginning, having stable position on a local market⁵.

⁵ Poland adopted a formula often met in the USA, where the so called safe payers are settled in incubators, ensuring them stable incomes, which can not be ensured by firms entering the market at the preliminary stage of their operations. About 30–40% of the center space is devoted for strategic tenants. Choice of this type of firms takes into account local and regional preferences of the development of the industrial structure.

Table 2. Users of business incubators at the beginning of 2001

	Number of entities	Number of jobs	Area covered (in m ²)
Newly created firms	330	1 839	27 386
Small firms	421	2 394	35 200
Strategic tenants	264	3 062	24 851
Other institutions ^a	62	294	5 298
Total	1 077	7 489	92 735
Entities that left incubators	717	3 282	—

^a – From amongst other institutions the most popular are: training and consulting centers, loan and guarantee funds, regional development agencies, scientific-research institutions as well as different associations and foundations.

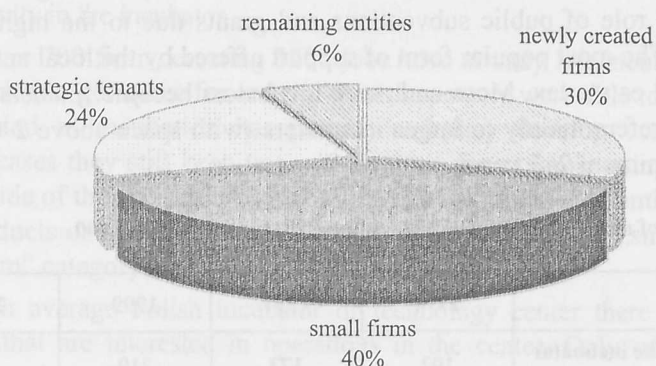
40% of entities are firms not older than one year, and they create 36% of the total number of jobs. Unemployed persons set up every third of newly created firms. Approximately 45% of their employees was previously unemployed. Amongst budding entrepreneurs more and more often young persons below 25 years old can be met (in every fourth firm). Average firm in incubator and technology center occupies space amounting to approximately 100 m² and creates 4,7 jobs. Lower employment can be observed in newly established firms (3.5 person), and the highest in strategic tenants.

Small firms with high possibilities of development, receiving preferences and relief are the most often met locators in incubators (40%). Newly established firms account for 30% of entities and create 25% of total number of jobs. For a few years one can observe a drop in newly established entities. This means resignation from incubation functions in favor for supporting hitherto existing entities. This is mainly a result of:

- drop in the dynamics of creation of new firms;
- tendency for self-financing activities of incubators, causing (especially in smaller centers) orientation at safe locators with stable market position;
- reduction of grants and programs supporting the creation of new firms.

As a consequence, a lot of centers start to resemble commercial business spheres or industrial parks instead of business incubators. Tendency for financial stability as well as weakening of ties with public institutions cause situation that in some incubators only strategic tenants can be met.

Figure 3. Structure of users of business incubators



From the very beginning of its activity, average incubator enabled to create 27 firms. 42% of firms were established by the unemployed, while another 29% by young persons below 25 years of age. From amongst newly created firms there dominate service firms (50,5%), then trade (33,8%) and manufacturing firms (15,7%). 5 firms suspended their activity, what accounts for 18% of all incubated entities. This result should be treated as very good, having in mind that in market economy conditions 50% of new entities is not able to survive longer than 3 years.

In order to create a business incubator, average expenditures amounting to 1 246 827 zł were needed⁶. 71% of the financial sources for adaptation and equipment came from external sources – domestic (The Ministry of Labor and Social Policy, the National Labor Office), international support programs (the World Bank, the European Union) as well as from direct foreign support (governments of Japan, Holland, and Germany). The rest of expenditures (29%) were financed from local sources (mainly local authorities and own capital of leading institution). As a rule, incubators use buildings that were adopted as a result of restructuring processes in the enterprises. Only in a few cases incubators have new buildings at their disposal.

Operating costs of average incubator/center activity amount to 447272 zł. 70 % of mentioned costs are financed by rent charges paid by firms, 11% from revenues on own activity, 12% from grants and target funds, and another 7% from public subventions. 80% of expenditures in average center is financed from rent charges and own activity – courses, training, consulting or rent of

⁶ For many months the exchange rate has been oscillated around 1 USD = 4 zł.

equipment. One can observe successive increase in covering costs with revenues from rent charges (from 18% in 1994 to 70% in 2000). Managers aim at reduction of the role of public subventions and grants due to the high risk of their receiving. The most popular form of support offered by the local authorities is a relief in real estate tax. More and more incubators become financially self-sufficient. This refers mainly to larger incubators (with space above 2 000 m²) operating for minimum 2–3 years.

Table 3. Structure of revenues of statistical incubator in the years 1994–2000

	1994	1997	1999	2000
Yearly budget of the incubator (in thousand zł)	102	173	219	447
including (in %):				
– rent charges	18	48	48	70
– own activity	21	16	17	11
– grants	23	18	17	12
– subventions	38	18	18	7

In most incubators and technology centers a maximum period of staying amounts from 3 to 5 years, and only in some cases this limitation was suppressed. Big differences in rent charges are observed – from 1 zł do 45 zł for m² (excluding VAT). Charges are dependent on standard of localization, kind of space (industrial, office, other) and situation on the local real estate market. In economically strong regions charges amounting to 20 zł/m² are not surprising, while in suburban or restructured regions there are problems with finding clients at ten times lower rent charges (2–3 zł/m²).

In most cases (70%) rent charges in centers are lower than market charges (by 35% on an average – from 0 to 50%). At the same time amount of charges is dependent on standard of the object, its localization and technical conditions. In practice, independently of the amount of rent charges, a number of preferences and relief for newly established firms (for example charge exemptions at the preliminary period of operation in the center, charge progression, etc.) are applied. Most of the incubators have detailed rules referring to acceptance and operating of firms-tenants. Social commissions consisting of representatives of local administration, business circles and labor offices decide about acceptance of the firm. As a rule in the first month charges are not drawn, and in the next months progression of rent charges is adopted, that finally gain their maximum level after

the first, and in some cases, after the second year of a firm's activity. Most of the incubators use commercial charges for strategic tenants from the very beginning of their activity in the incubator.

Over 700 firms, creating 3200 jobs have already left incubators (as a rule they needed larger space for activity than the centers were able to offer or a three year period of incubation has passed) and they develop very dynamically. In most cases they still keep ties with centers, for example using their services. A poor side of the Polish business centers is a low number of entities working on new products or technologies, that could be qualified to the „small technology-based firm” category.

In average Polish incubator or technology center there apply 5 clients a month that are interested in operations in the center. Only one fifth of them presents projects that are worth closer interest. In all centers different criteria of firms-tenants' acceptance are used.

The following system of preference show the most demanded areas of the incubators' activity (evaluation in scale from 1 point – lack of feature to 7 points – decisive influence):

– assistance in development of small local firms	6,1 points;
– creation of new jobs	5,8 points;
– assistance in creation of new firms	5,6 points;
– filling offered space with competitive firms	4,4 points;
– transfer and commercialization of technologies, co-operation with R&D institutions	3,7 points.

Different kinds of assistance for small and medium size firms offered directly by the centers' employees or indirectly via training and consulting centers, loan and guarantee funds, and other entities are base for functioning of business incubators and technology centers. Consultations in the area of creation new firms (in 90% of centers), as well as working out business plans (79%) are examples of direct support while indirect assistance refers mainly to financial (70%) and legal (63% of centers) consulting. Every second incubator co-operates with loan-guarantee fund.

According to the incubators' managers, the main difficulties and barriers of incubators' development are as follows (evaluation in scale from 1 point – lack of feature to 7 points – decisive influence):

1) bad economic conditions in region	4,4 points;
2) lack of sources for equipment and adaptation	3,9 points;
3) lack of candidates for running own businesses	3,8 points;
4) bad localization, poor communication network	3,7 points;

- 5) lack of assistance from local, regional, and governmental institutions.

3,6 points.

Taking into account the economic conditions in the country, hitherto development of business incubators should be regarded as success. Attempts to adopt advanced institutional form in difficult conditions of fundamental rebuilding of the economic system have brought positive results. In this field Poland is ahead of remaining post-communist countries, and standard of some incubators is comparable with that in West Europe or the USA. These institutions have collected resources and potential necessary for active operations aiming at supporting newly established firms, entrepreneurship and local development. Together with training and consulting centers and non-bank loan and guarantee funds they create effective (in Polish conditions) model of entrepreneurship support. Over 1600 new economic entities started activity in incubators, and rate of bankruptcy is below 20%. Deeper analysis of results of undertaken activities points at high efficiency of creation of such a type of institutions. Development of all kinds of innovation and entrepreneurship centers is a sign of changes in the society and increase of interest in activities initiating creative thinking about regional development. Many centers, especially outside larger towns, are local „visiting cards” and are called „the doors to common Europe”.

Development of business incubators and other institutions of economic support is a success of local societies and persons directly connected with particular initiatives. Such institutions contribute to a new quality into local environment, activate local society, transferring new experiences and external support, and most of all assisting people in realizing their business plans. Looking for sources of success of incubators, the following factors should be underlined:

- 1) **Local climate and engagement of local authorities.** In all cases, the creation and development of initiatives were strongly affected by local authorities. In the preliminary period a decisive meaning had financial and technical support from authorities covering target subventions, leasing the property or financing operating costs. When the preliminary period is finished, the most popular form of local support is relief in real estate tax. Experiences of a few years show that co-operation with local self-government is not always easy. Especially when the center succeeded, there appear supposed „godfathers”, who by the way would like to gain own political goals. Key meaning has mutual understanding of role and functions of non-governmental institutions, which should not be involved in political interests and not be exposed to political pressure.

2) **Participation in important governmental or aid program supporting development of entrepreneurship infrastructure and transfer of technologies.** Each incubator received significant external assistance in the creation of potential as well as collecting resources and experiences. Support referred mainly to:

- subventions and grants for adaptation of buildings and equipment with the necessary infrastructure;
- training of human resources;
- working out procedures and standards of activities.

Local share in the creation and equipment of average incubator amounts to 29% on an average, while remaining part is based on external support. External sources are an additional factor of existence such as institutions in local environment. Success in receiving external sources for statutory goals is especially demanded effect of activity of innovation and entrepreneurship centers.

3) **Analysis of market, adjustment to demands in the environment, wide range of activity, complexity of operations.** Empirical research points at the important role of professional preparation of institutions at the stage of designing as well as strategic management. Almost all institutions from the very beginning had at their disposal business plans that are periodically corrected. All institutions work out quarterly and yearly financial plans. Directions of operating activity are modified and widen together with stage of development of centers and changes on the market.

4) **Quick gaining of self-financing and self-dependence.** Within maximum four years each institution has gained the level of own incomes that enables financing statutory activity. Collected material resources (real estates and equipment) play a crucial role in keeping financial stability.

5) **Leaders and human resources.** The bases for successes for each institution are concrete people whose engagement and devotion shaped the institution. They are creative people, convinced about rightness of the undertaken activities, able to fight all resistance and reverses of fortune. Present managers of investigated institutions were their initiators. Keeping their position till today, they ensure continuity of experiences and external contacts. Personality of the leaders strongly determines the first period of the center's activity. Together with development of range of incubators' activity, ability to organize a team and to divide competencies will be of crucial importance, as too strong powerful personality can become the barrier in development of the institution. Higher efficiency gain persons able to manage human resources.

- 6) **Development of network of local, national and international co-operation.** In the case of some incubators international contacts become an important impulse of their creation. Co-operation and exchange of experiences has been continued. In most cases this co-operation manifests in occasional meetings, trips, common conferences and training.
- 7) **Adaptation of market methods of operations.** This reveals in constant control of costs and incomes. Competition on the market of services for business extorts from incubators improvement of their offers for clients as well as seeking new partners.

Business incubators in their present shape and with their potential play limited role as a bridge between research sphere and industry, and to a small degree participate in creation and development of new technology based firms and in the process of commercialization and transfer of technologies. Hitherto development of incubators was dominated by the labor market policy. The Ministry of Labor and Social Policy is main the source for inspiration and financing new centers. It feeds the current activity of incubators through ordering training, consulting, creation of *start-up* funds, etc. The main partners in current activity of incubators are labor offices and target programs oriented at self-employment of the unemployed. Co-operation with scientific-research institutions, technology based firms as well as operations for transfer and commercialization of technologies are of secondary importance. **Orientation at new products and technologies, support of technology-based firms is the main task for the Polish incubators in the nearest future.**

The creation of new incubators and other centers for innovations and entrepreneurship needs qualitative reorientation of mechanisms of development of regions and of the whole country towards innovations and entrepreneurship. The following activities play a key role in this process:

1. Creation of programs of entrepreneurship, innovation, and development of small and medium size firms' support in local and regional aspects, possessing sufficient financial sources and accessible for the most effective institutions;
2. Working out legal regulations enabling operations for public-private undertakings independently of their organizational-legal form (according to European standards). Key question refers to assigning profits for further development of the institutions if they realize social goals, including entrepreneurship support and transfer of technologies.
3. Settlement of legal, tax and financial regulations concerning non-governmental institutions, especially excluding free interpretation of regulations by tax offices;

4. Training, increasing of the qualifications in a range of working out programs and applications; education of advisers for small and medium size firms;
5. Development of network of co-operation with local and regional administration, scientific institutions, and other non-governmental institutions;
6. Assistance in working out feasibility studies and business plans in new centers as well as care for equal development of incubators all over the country.

Abstract

rather than being influenced by public S&T policy.