The impact of business incubators and innovation centers on the development of the Macedonian economy

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**Abstract**

In the period behind the business incubators have gained considerable publicity and reputation of entrepreneurial initiatives that are very promising. Today's business incubators assist the development of the companies that foster entrepreneurial spirit in order to survive the period after the commencement of business (this is the period when they are most vulnerable) and of course thereby helping them to expand their business. Within its activities, the business incubators to their clients provide diverse services and resources that they need at the time of commencement of business and their emerging at the market, that include: assistance in managing and planning and what is most important for new established companies - financial assistance. One of the primary goals of the incubators of course is providing office space for their customers with affordable rent, office services and equipment etc. .. The main purpose and contribution of the incubators can be found in providing conditions for starting new businesses that will create new jobs which will affect the economic growth and wealth of citizens.

Today, more prevalent are the efforts to find different opportunities and establishing institutions for realization of the business ideas, and as on state, also and on local level. Following the example and experience of the highly developed countries, and the experiences of Southeastern Asia, we can come to a conclusion that the initiatives and support on local level can often have primary importance for the establishment and development of businesses of different levels. In Macedonia, lately, mainly at local level more often is the practice of establishing institutions to help entrepreneurs achieve their business ideas. As key institutions of this kind are the business incubators and the centers for innovation in business.

According to the experiences of the countries with longer tradition in establishing incubators and under the other conditions of normative-technical nature, the first business incubator in the Republic of Macedonia was established on 06.03.1997 in Prilep, as a limited liability company under the name Biljana Incubator Ltd - Prilep established by the founders Biljana Predilnica AD - Prilep, Biljana Vatara AD - Prilep and Biljana Confection AD - Prilep.

The centers for business or technical innovation, however, (where they exist) are high-tech version of the incubators for business. In the U.S. (where they are most common), they are usually associated with some of the universities and are designed to assist the local innovators or other entities to commercialize their inventions.

In the Republic of Macedonia as the most important institution of this kind of course is the European Information and Innovation Centre, opened in 2008, as part of Enterprise Europe Network, with which partners are many state institutions.

Keywords: business incubator, center, innovation, economy.

Business incubators according to the international experience

The Incubators as a form for helping the newly established businesses have been developed in the world for a quite a long time, at the beginning as a method of economic development for using the old premises and creating new businesses in the local economies. Business incubators nurture the development of entrepreneurial companies, and also help them to survive the starting period of the business (when they are most vulnerable) and of course, helping them to expand their business. Business incubators enable its clients a variety of services and resources they need in the period when they are young companies. These services and resources include: assistance in management, planning and, of course, financial aid. The incubators also provide their clients workspace with flexible rent, office equipment and services – all in one place. The main purpose of these programs for business incubation is to create new companies that will create new jobs and thus wealth in those regions.

These activities are designed to help the new businesses to overcome the initial stage of starting the business and to grow into healthy and independent economic entities. The international experience suggests two basic types of incubators: first, regional incubators; and second, company (within the company) or corporate incubators, located within industrial complexes, and provided with free offices.

Nowadays we can distinguish several different types of business incubators:

* as non-profit organizations focused on the economic development (most of them);
* those that are profit oriented;
* “mixed” (the first two types), those that help the enterprises in the early stages;
* increased percentage of business incubators are focusing on the businesses in the IT field;
* smaller part of the business incubators are focused in the area of production;
* even fewer have focused on service businesses[[2]](#footnote-3).

However, regardless of their type, their main goal is to help the newly-established businesses. Basic conditions for the development of this type incubators are the following:

* the existence / development of a market oriented economy;
* the readiness of the relevant institutions (governmental and non-governmental, regional and local) to take the incubators’ activity to assist in the establishment of new businesses and development to the stage of maturity;
* the material resources to support the work of the incubator; and
* skilled and motivated managers who will be engaged in creating incubator to provide the necessary services.

According to the experiences of the countries with a long tradition of working with incubators, the primary task is within the local administrative unit, to support the selection process of entrepreneurial ideas and to make them commercially effective through the implementation of new small and medium businesses.

Today in scientific circles and practice often ask the question: Is the business incubation a new industry?

No. The term business incubator gained popularity with the new term, so called Internet incubators, but the business incubation model dates back to the 1950s. The model has been accepted for a number of reasons, including the increasing employment in economically disadvantaged communities, in some way serving as investors.

According to the experiences of developed countries, this process was inevitably to be transferred to the developing countries, and in the countries that have adopted the transitional reforms after the collapse of the economic and political system of the former socialist countries.

In terms of the provision of the necessary resources as sponsors of the business incubators can be either individuals or entire organizations that wish to support the business incubation programs. There are incubators, so called "hybrids" – that have more than one sponsor.

To create a successful incubation program for those who are working in the incubator and are responsible for its management, you must first invest time and money for preparation of a feasibility study. With this you can determine whether the project will have a market, solid financial base and strong support from the environment - all of these are critical factors essential to the success of the incubator. Once you determine these things, the implementation of the project can begin.

But it is interesting to note that once a final decision is made for establishing business incubators, then immediately the following question its raised: where or in which administrative part of the state they need to be formed? From existing experience can be noted that they often cover regional or local areas where there are industries whose development process is slow, and in most cases even with a declining trend and high unemployment rates.

But, not only the downward trend in the manufacturing industries impose the need of opening business incubators, also and the technical and technological development of the countries (from the industrialized to the developing countries) its creating structural unemployment, and this unemployment emerges as a main effect of those models. The business incubators are in function for overcoming exactly these problems.

In practice are known three subjects, mostly, they are set up by the business incubators, and they are: local authorities, the business and the universities[[3]](#footnote-4). The local authorities are providing office space and basic infrastructure; the business is in charge of the financial aspect; and the universities for the transfer of knowledge. Often there can be made exceptions, so the three partners can realize the initial financial plan.

The time that the entrepreneurs spend in the incubators is determined by the rules of the incubator and in practice it can be different. In fact, in certain cases, entrepreneurs remain in incubators until they develop their idea from prototype to product, after that they are emerging on the free market independently. There are incubators where the entrepreneurial idea is brought up to the stage of commercialization and the company is kept in the incubator until it overcome the weaknesses of the early period (therefore they are called incubators) - until they gain confidence in their business partners and start working completely independently[[4]](#footnote-5).

There are no uniformed rules known to the practice about the types of businesses that will be locate in the incubators. Most important is that the offered business plan needs to be good and to offer opportunities for profitable operation.

Certainly, one of the most important activities of the incubators is the offer of services and expertise in one place, but from many areas, i.e.:

* Development of the business plans;
* Assistance in conquering the market (domestic or foreign);
* Financial services and advice;
* Improvement of the technological processes and the production quality;
* Selection of the required technology;
* Accounting and legal services, and so on.

In order to realize their goals the incubators assist their customers in several ways:

* Management of their own funds, revolving loans and loans for the small companies.
* Connecting the companies with the investors (business angels).
* Working with venture capitalists and connecting the companies from the incubator with those formal sources of investment.
* Helping the companies with the applying for loans at the banks[[5]](#footnote-6).

The contribution of the incubators to the development of the local and regional economy can be seen in the fact that they create new jobs, revive the neighborhood and promote new technologies, while strengthening the local, regional, and even national economy.

Regarding the issue of the amount of the compensation for the services provided it can be concluded that it is different for various incubators and users.

Business incubators in Macedonia

The business premises for the needs of the incubators in our country is mainly provided by using the factories, halls and warehouses which remained from the bankrupt companies during the transition period. They are adjusted, and depending from the submitted business plan they are given to the entrepreneurs. To support the entrepreneurial activities, the incubators offer special rooms that can be used for various meetings, educational lectures and other infrastructure needs. The common infrastructure provided by the incubators contributes to the reducing costs and achieving greater profitability of new businesses. But the use of the old premises from the bankrupt companies is not the only way for providing office space for the incubators. Also, it can be provided with the construction of new business facilities.

Using to the experiences of the countries with a longer tradition in the establishment of incubators and under other conditions with normative-technical nature, the first business incubator in the Republic of Macedonia was established on 06.03.1997 in Prilep, as a limited liability company under the name Biljana Incubator LLC – Prilep, by the founders Biljana Spinning Mill Incorporated - Prilep, Biljana Vatara Incorporated - Prilep and Confection Biljana JSC - Prilep[[6]](#footnote-7).

**Table 1**: The shareholders of Biljana Incubator LLC Prilep

|  |  |
| --- | --- |
| **Name of the shareholder** | **%** |
| Biljana Spinning Mill Incorporated – Prilep | 70 % |
| Biljana Vatara Incorporated - Prilep | 15 % |
| Confection Biljana JSC - Prilep | 15 % |
| **Total** | **100 %** |

The company had office space of 1.900 m2 and physical capital, consisting of property and equipment of 18.740.000,00 MKD in total.

**Table 2**: The capital of the company

|  |  |
| --- | --- |
| **Capital** | **%** |
| Equipment | 80 % |
| Property | 20 % |
| **Total** | **100 %** |

At the beginning there were three employees, and today is only one employee.

The companies interested in using the services from the incubator are called participants in the incubator, and they can use space, equipment, economic and bookkeeping services (with symbolic price), legal services, consulting services and much more.

From the beginning until today, with the business incubator "Biljana" 30 companies had been doing business, mainly from the production area such as production of plastic products, electrical materials, food and textiles, and also with some trading companies. The number of employees in the companies that were supported by this incubator ranges from 2 to 15 employees. The companies that are participants can use the incubator’s services from three to four years. After that they should leave the current premises or stay there by paying the regular rent and the other liabilities. The rent in 1997 was around 1 € – 1,5 € per m2, and after 2010 they increased for 15%.

**Table 3**: The cost for rent per m2

|  |  |
| --- | --- |
| **Year** | **€ per m2** |
| 1997 | 1,00 € – 1,50 € |
| 1998 | 1,00 € – 1,50 € |
| 1999 | 1,00 € – 1,50 € |
| 2000 | 1,00 € – 1,50 € |
| 2001 | 1,00 € – 1,50 € |
| 2002 | 1,00 € – 1,50 € |
| 2003 | 1,00 € – 1,50 € |
| 2004 | 1,00 € – 1,50 € |
| 2005 | 1,00 € – 1,50 € |
| 2006 | 1,00 € – 1,50 € |
| 2007 | 1,00 € – 1,50 € |
| 2008 | 1,00 € – 1,50 € |
| 2009 | 1,00 € – 1,50 € |
| 2010 | 1,15 € – 1,75 € |
| 2011 | 1,15 € – 1,75 € |
| 2012 | 1,15 € – 1,75 € |

It should be noted that the participating companies who have been using the incubator services during the first three years have provided enough potential for economic independence and further successful operating. Today, more than half of those companies that have used the services are in other offices and some of them are using the offices in the incubator. It should be emphasized that among both, there are profitable companies (LLC Polymers-Prilep, plastic; LLC Afiks Prilep plastic tables; LLC Terracotta Engineering-Prilep, construction).

It is important to mention that none of the companies that have been using the services from the incubator in the initial period is not bankrupt or started a liquidation procedure.

In the establishment of the incubator the Government was also participating. According to the agreement for establishment, the Government was bound to support the incubator for 10 years, until 2007, and after this period the incubator continued to work independently, offering the same services to its participants. After a period of three years, the participants started to pay rent in accordance to the decisions of the incubator, but which still was lowest in the city. The local government did not offered any facilities for the operation of the incubator.

The premises that were given to the new business entities were with complete infrastructure needs (access to electricity, water, drainage). The costs were covered from the participants in the incubator. Depending on the activities of the companies, the business incubator brought the facilities to usable condition.

According to Mr. Murgoski, who stated with regret that this incubator (the last from the first six) will be terminated due to lack of conditions for survival. The reasons are the following:

1. Two of the shareholders ceased to exist due to implemented bankruptcy proceedings and the premises that participated in the incubator can no longer be used for that purpose;
2. The accounting services that the incubator was offering so far will not be available any more for future users. This is due to changes in the legislation in the field of accounting (special license, liability insurance, etc..);
3. The remaining shareholder has no interest to continue with the activity because neither central nor local authority offers some advantages;
4. The business conditions have deteriorated, so it is difficult to find a new user if the current users eventually decide to leave[[7]](#footnote-8).

Centers for business and technical innovation

The business or technical innovation centers are high-tech version of the business incubators. In the U.S. they are most common and usually associated with one of the universities and are designed to help the local innovators or other entities to commercialize their inventions. In fact, they help to the start up of the new companies, they offer research labs and the services of the professors. The innovation centers during their operations have established cooperation with the institutions that deal with registration and protection of patents. Also, they developed relations with various institutes for technical services, especially in developing some prototypes or other products, then did some cooperation with institutions that provide financial services and that have access to the needed capital, until finding a company that might be interested in the production and further distribution of the newly discovered products or inventions.

First such center in the Republic of Macedonia is the European Information and Innovation Center (EIIC), as a member of EEN[[8]](#footnote-9). It is a consortium composed of four institutions, established in 2008 with support from the European Commission and the Government of the Republic of Macedonia. Coordinator of the Center is the University "Ss. Cyril and Methodius ", and members are the Foundation for Management and Industrial Research, the Agency for Support of Entrepreneurship and Economic Chamber of Macedonia. The reason for the establishment of EIIC is creating a system of organized access to foreign markets for Small and Medium Enterprises (SME). Its goal is to help in transcending the national barriers and in forming international partnerships for cooperation in the fields of business, science, innovation and technological development. The main goal of this project is to facilitate the improvement of the competitiveness and innovation of SME, to increase access to information on doing business and improve their technological level.

EIICM services are designed for small and medium enterprises, but they are available for all business and research centers, and universities in Macedonia. The EIIC helps in establishing cooperation between small and medium enterprises and the scientific, research and development centers. In this way it enables the application of scientific advances in the manufacturing processes through the introduction of innovative technologies. Also the EIIC enables close cooperation of the SME with the international academic potential. The center offers the necessary information on the business opportunities of the European Union to all domestic enterprises that are interested to find the solution to the dilemmas related to the European Union market. Activities that are undertaken are referred to: seeking business partners in business cooperation bases and quick access to the information about the funds, searching partners for technology exchange, individual visits to the companies for evaluation of their needs, organizing national and international fairs, requesting partners for participation in EU FP7 Framework Programme and the European Information and Innovation Centre in Macedonia as part of the European Network of Enterprise (Enterprise Europe Network – EEN), publishing a number of promotional and informational materials on topics related to the EU-entrepreneurship. Representatives of the Centre help the entrepreneurs to understand the European legislation, in the way it is applied in business and how to achieve the maximum of the internal European market and European programs.

According to its position, it is a specialized and practical facilitator for the implementation of many projects related to the competitiveness and innovation, and not only in the domain of scientific centers and enterprises, but also beyond, as it is in direct relation with the European Commission. Namely, through the joint programs that can be implemented. Furthermore, it is a key instrument for the implementation of the CIP program (Competitiveness and Innovation Framework Programme) of the European Union[[9]](#footnote-10).

So far EIIC has achieved a lot off successes in their work. The successfully implemented the activities under the Action Plan CIP program of the European Commission, can be distinguished as follows: An internal data-base with internet access for the overall management of the project, as well as records of scientific institutions and enterprises in Macedonia, scanning their needs and problems in order to ease and resolve them, finding partners for science, business and technology cooperation, transfer of technology, continuous promotion of profiles for science, business and technology cooperation in the monthly newsletter and website EIIC (www.een.mk), promoting the EU calls for proposals, assistance in the scientific and business-communication between scientific and business organizations, finding partners for participation in research projects within the FP7 framework program and European programs, on regularly basis to inform the Macedonian companies for the European programs and tenders, maintenance, training and organizing events for the scientific and business environment, organizing numerous visits to the companies, answering questions about business opportunities and national and EU legislation set by the Macedonian and European enterprises, organized visiting to the international fairs in order to achieve greater internationalization of Macedonian companies, publishing promotional materials EU topics, and an introduction with services and economic activities of EIIC[[10]](#footnote-11).

Therefore, the activities and results of the European Information and Innovation Centre in Macedonia were positively assessed by the Directorate-General for Enterprise and Industry (DG Enterprise and Industry) of the European Commission.

Our country and the countries with similar level of development encourage the competitiveness of the private sector. Developed economies do the same. One of the measures is the Enterprise Europe Network, as a key instrument of the Competitiveness and Innovation Programme, which supports the activities of the small and medium enterprises.

The inclusion of the Republic of Macedonia in this program will provide networking of the Macedonian companies with over 400,000 companies in the EU where they can find available funds to improve their competitiveness and innovation[[11]](#footnote-12).

The European Information and Innovation Centre for Macedonian companies will open the opportunity to connect the companies with business partners, to improve the awareness, to familiarize with European best practices for doing business, to raise the technological level and the degree of innovation, to encourage scientific research and the development component. It should, also, lead to the establishment of strong international links for our small and medium enterprises, and open the possibility of their participation in the implementation of scientific research and innovative projects.

Let's hope that all of this, in the context of meeting the European standards and achieving a functioning market economy, will contribute to a better integration of the Macedonian companies in the competitive single European market.

Conclusion

Following the experiences of the developed countries, either through scientific thought, legislation or practice, it can be concluded that the incubators with main goal to utilize the available office space and to create new jobs have played a significant role in the development of the national economies, especially at the local level.

Unfortunately, although using the experiences from the world economy, Republic of Macedonia has taken appropriate legislation changes and build appropriate institutional infrastructure, but still cannot boast with a high participation of the incubators in the national economy. According to the testimony of one of the direct participants in these incubators in future instead the incubators to develop even more they are going to vanish. Reasons certainly lie in the unwillingness of the central and local governments, to direct their efforts in supporting the Programs. The benefits from this will be felt by all stakeholders (central government, local governments, business sectors, etc.).

According to what has been done by the normative aspects and organizational structure, it only remains to hope that the innovative centers will contribute for better integration of the Macedonian companies in the competitive single European market, in the context of fulfilling the European standards and achieving a functional market economy.

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4. Fuada Stankovic and Nikola Lukmirovic: “ Entrepreneurship”, Novi Sad, 1995, p. 67. [↑](#footnote-ref-5)
5. Information taken from http://pretpriemac.mk /, (accessed 08.05.2012). [↑](#footnote-ref-6)
6. The presented data were obtained from the archives of the founder of Biljana Konfekcija AD Prilep in Biiljana Incubator Ltd. Prilep and interview with grad. lawyer Saso Murgoski proxy holder from the founder of Biljana Konfekcija AD Prilep. [↑](#footnote-ref-7)
7. Same, the interview was made on 13th September, 2012. [↑](#footnote-ref-8)
8. Enterprise Europe Network (EEN) is the largest business network linking Europe, which helps the companies to improve their performance and to innovate through partnerships, information and vocational counseling. This new European network for support SMEs started in January 2008 and was formed with the merging of the two largest European networks that for many years worked in their domains: Network of Euro Info Centres (EIC) and the Network of Innovation Relay Centre (IRC). They were existing no more than 10 years and had developed a number of tools, methods and approaches to the work that today are summarized in a single network. Enterprise Europe Network is present in 45 countries and it is comprised of more than 600 partner organizations, so that its services are available through 25 million companies in the EU and companies from countries that are not EU members but part of the network. [↑](#footnote-ref-9)
9. EU programs for SMEs in Macedonia, University "Ss. Cyril and Methodius ", 2010. [↑](#footnote-ref-10)
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