

# THE INFLUENCE OF BUSINESS INCUBATORS ON THE POST-INCUBATION SUCCESS OF SMALL BUSINESSES

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## ABSTRACT

*This article explored influences that business incubators have on the success of small businesses after being incubated. The focus was on business incubators in Johannesburg, South Africa. An exploratory, qualitative method was employed. The findings revealed that networks and the effective management of stakeholders, are a central factor in the success of business incubators. Other factors included access to funding; having facilitators on the programme who are themselves entrepreneurs; and the quality of the incubator programme management. These emerged as key factors leading to the success of small business start-ups and hence the success of the business incubators.*

*Given the low economic growth rate and high unemployment numbers in South Africa, increased support of business incubators should be a focus of both government and corporate South Africa to ensure the survival of start-ups because of their role in the economy.*

**Keywords:** Incubation, Post-Incubation Success, Entrepreneurship, Business Incubators.

## INTRODUCTION

This article explores the impact, growth, and success rate of small businesses in the post-incubation phase that might be attributable to having attended business incubation programmes. Businesses that had been through an incubation programme were identified to investigate if there were any significant relationship that exist between involvement with business incubators and the long-term survival of a businesses.

South Africa ranks amongst the highest in global unemployment figure (OECD, 2019). While the country has recovered from the slow economic growth seen in 2015 and 2016, its GDP increased by 3.1% from the first to the second quarter of 2019, before it hits another low because of the impact of the Covid-lockdown of 2020/22. The lack of job creation also remains an area of deep concern for economic growth (Swanepoel et al., 2010; World Bank Group, 2018; Statistics SA, 2018).

Governments in developing countries showed little interest in the development of micro- and small enterprises (MSEs) prior to the 1970s (McPherson, 1996). After this period, support for the growth of small business development has increased due to the high potential they hold as growth engines (McPherson, 1996). The Global Entrepreneurship Monitor (GEM) confirms that entrepreneurial activity in South Africa continues to be consistently low when compared to countries with similar development levels (Mahadea & Pillay, 2008; Herrington et al., 2017). This is of great concern as entrepreneurs are needed to stimulate the growth of new businesses and job creation (Swanepoel et al., 2010).

Current global trends show high failure rates in the start-up phase of small businesses (Kamdar, 2016). In South Africa, the failure rate of new businesses is close to 90% in the first two years of operation (Kamdar, 2016). Business incubators seek to nurture and provide support for new businesses when they are at their most vulnerable; and thus, they play an important role in promoting the development and sustainability of small businesses (Dubihlela & Van Schaikwyk, 2014). It is therefore no surprise that business incubators have begun to gain traction and that the number of business incubators, funded both by the private and public sector, continue to grow (Masutha & Rogerson, 2014).

While the number of incubators has increased over the past decade, the need is not necessarily for increased numbers but rather for effective incubators that will equip small businesses with the skills to survive and grow (Lalkaka, 2002). The measure of a business incubator's success should be determined by attributable survival of the businesses they incubate. However, the literature and available research speak mainly of the incubation process and not of what is happening post-incubation.

Gauteng, as province in South Africa, contributes 35% of the country's GDP (Statistics SA, 2018), with Johannesburg, the business hub of Gauteng. With business incubators offering small businesses stability, economic growth, and long-term company survival (Albort-Morant & Oghazi, 2016), this article aims to explore the post-incubation success rate and sustainability of small businesses in Johannesburg.

## LITERATURE REVIEW

To establish the success rate of post incubation entrepreneurial businesses, the roles of the various stakeholders in business incubators are important to identify and evaluate. For this reason, stakeholder theory will be used as the overarching theory for this article.

### The Business Environment for Small Businesses

Described as efficient and prolific job creators, SMME's collectively employ more workers than multinational firms, explaining why governments around the world place so much emphasis on their growth and development (Abor & Quartery, 2010). The global entrepreneurship monitor shows that there is a statistically significant relationship between economic growth and entrepreneurial activity (Carayannis & Von Zedtwitz, 2005).

Despite the fact that small businesses potentially offer attributes that have far-reaching and positive socio-economic effects, the failure rate of small businesses in their formative years can be as high as 90%, largely due to the environments in which they operate (Kamdar, 2016). While this is a worldwide trend, South Africa still has one of the lowest SMME survival rates globally (World Bank Group, 2018). This is particularly worrying because in the opinion of Dubihlela and Van Schaikwyk (2014), the small business sector in South Africa has the best chance to create employment and improve the unemployment situation in the country.

### The Internal Environment

The internal environment is categorised by factors deemed controllable by the business. Factors include finance; human resources; management skills; innovation and technology; location; and networking. One of the biggest challenges for start-ups is limited access to funding

(Olawale & Garwe, 2010). As in many other countries, financial institutions in South Africa are not geared towards financing high risk ventures (Swanepoel et al., 2010). According to Mahadea and Pillay (2008), many financial institutions view small firms as a high-risk with poor collateral. Lending to businesses in this category is made to carry large administrative and operational costs in relation to the size of the loan as well as the risk of yielding low investment returns (Mahadea & Pillay, 2008). Therefore, many small businesses rely on personal networks to raise funds and when networks are limited, the challenge for the start-up business increase.

While the goal of most small businesses is to grow, growth also means that the business needs additional resources. Attracting and sourcing talent usually means competing for this talent with larger firms. This competition brings the challenge of trying to match salary packages that larger businesses can offer. According to Mahadea and Pillay (2008), *“The intricacies of the labour laws, may prevent employers from hiring additional labour”*.

A key contributor to the failure of small businesses is the lack of managerial skills. Swanepoel et al. (2010) state that successful entrepreneurs have general management skills and sound networks, and they are innovative and creative thinkers. The background of the entrepreneur, including experience; training and level of education; and their management- and operational skills all impact on their decision-making and plays a significant role in the growth of a business.

Constant innovation is a key component for businesses to be competitive, and technology plays a crucial role in innovation. However, the high cost of using technology poses a challenge for many small businesses. SMMEs need to be located close to key stakeholders in their supply chains. Suitable location also allows SMMEs to readily identify growth opportunities (Olawale & Garwe, 2010).

Networking is a critical factor in impacting the growth of a business. Forming good relationships with customers and even competitors not only ease the doing of business (Adner & Kapoor, 2010), it can also help to gain access to finance and inform the wider community about the business and its activities. This can spark interest and increase a firm’s legitimacy (Olawale & Garwe, 2010).

## **The External Environment**

The external environment consists of factors found in the environment in which a business operates and over which they have little or no control. External environmental factors cover a large array of macroeconomic factors such as the crime rate; government policy; regulations, such as registration and licensing; labour laws; fiscal and monetary policies which affect interest, inflation, and tax rates; and adequate access to infrastructure such as water and electricity, ICT; transport and roads (Olawale & Garwe, 2010).

Whereas large businesses in difficult economic climates often have more absorptive capabilities, smaller businesses do not (Mead & Liedholm, 1998). Thus, they need more support from government and all legal, bureaucratic, and regulatory frameworks must be reformed to create and support a successful entrepreneurial culture (Isenberg, 2010).

## **Business Incubators**

The first incubator was created in New York in the 1950’s in response to plant closures in Batavia and New York (Aernoudt, 2004). Since then, there has been a rapid global increase. The

business incubator model has changed significantly since the first incubators and they are now considered to be an important part of the modern entrepreneurial ecosystem (Hausberg & Korreck, 2018).

According to Lose and Tengeh (2015), the first incubator in South Africa was developed in 1995 by the Small Business Development Corporation (SBDC), called hives and were formally intended to help small businesses overcome the challenges they faced. However, there was no set incubation period. Given their purpose of aiding business development, incubators have become a point of interest among scholars, particularly in relation to developing countries (Lose et al., 2016).

### **The Function and Purpose of a Business Incubator**

The services provided by incubators differ and their objectives are often aligned to and determined by the needs of the incubator's environment and location (Theodorakopoulos et al., 2014). Government often support incubation to overcome developmental challenges because they recognise the significant role SMMEs play in job creation and market expansion (Al-Mubarak & Busler, 2010; Rogerson, 2017).

Lalkaka (2001) states that incubators provide physical workspace, shared office facilities, counselling, information, training and access to finance and professional services in one affordable package. According to Rogerson (2017) business incubators also provide administrative services, business advice services, training programmes, technical support services, facilitating access to finance; and, networking opportunities and marketing. Similarly, Albort-Morant and Oghazi (2016) note that access to infrastructure; expertise, operational know-how, good management and resources; finance and funding; networks of key stakeholders; and new markets, are key elements in the nurturing and development of small businesses while in the incubation and post-incubation phase.

### **The Sustainability of Business Incubators**

According to Schwartz (2009), the core focus of business incubators are to help entrepreneurs build sustainable businesses. This view is supported by Korunka et al. (2010) who conclude that small business survival is the key indicator of business incubator success. Hackett and Dilts (2004) feel that the success of business incubators can be measured by the number of jobs generated by incubatees and their financial performance, as well as by their developmental advances at the time of incubator exit. Lose et al., (2016) add that the success of an incubator should be determined by the number of jobs the incubated business creates. Bone and Burnett (2018) found that mentorship and access to mentors who had significant industry-specific knowledge and connections within the industry or who have extensive experience in setting up a business themselves, was of high value to entrepreneurs.

### **Stakeholder Theory in Relation to Incubator Success**

Stakeholders play an essential role in the success and sustainability of business (Donaldson & Preston, 1995). Business incubators, like most businesses, are dependent on multiple stakeholders as they collectively influence either positive or negative outcomes. For this research, the stakeholders of business incubators have been identified as: employees, suppliers

and service providers, investors, government, customers (small business owners) and surrounding communities.

For universities and institutions that invest in research, incubators help strengthen interactions between university, research, and industry (Lalkaka, 2001), which promotes research commercialisation, and allows members associated with these institutions, the opportunity to apply their capability and skills better (Dubihela & Van Schaikwyk, 2014). South Africa has evolved to a multi-stakeholder approach to business incubation in which both the private and public sectors are driving and expanding incubation activities (Masutha & Rogerson, 2014).

### **Challenges Facing Incubators**

Evidence has shown the positive impact which business incubators have on growing the small business sector. This is also a reason why the number of business incubators continues to grow with the support of both the public and private sector (Dubihela & Van Schaikwyk, 2014). But incubators operate mainly as non-profit entities. Thus, their cash flows are heavily reliant on external support. Even business incubators that have strong networks battle to secure funding for their incubatees (Lose et al., 2016).

Inadequate management is also a problem for many incubators and research has confirmed that there is a need for improving the quality of incubation management to enhance the performance standards of both incubation projects and user firms (Hannon, 2005).

The third challenge is the inability to attract adequately skilled professionals to manage the business functions of incubators (Lose & Tengeh, 2015). Often those managing incubators are not entrepreneurs themselves, nor do they have management experience. The fourth challenge facing business incubators relates to the environment in which they find themselves. Business incubators operating in weak business environments struggle to access the services, resources, or infrastructure they require as do other small businesses operating in the same industry, but in a better environment (Lose et al., 2016).

Lose et al. (2016) state that the lack of entrepreneurial skills is another challenge that adds pressure on incubators. Lalkaka (2002) suggests that there is a need for government to include subjects that support entrepreneurship in the school curriculum, thus building the capabilities required to start a business.

### **Business Survival Post-Incubation**

Schwartz (2009) states that businesses enter a high-risk period after exiting incubation programme, that may last up to three years after incubation. This is a concern because businesses normally begin to show signs of growth only after leaving the incubator (Dubihela & Van Schaikwyk, 2014). Approximately 30% of businesses failed in the post-incubation period, and the probability of a firm surviving a period of six years after graduation from an incubator is about 68%.

Failure rates post-incubation could be a result of the discontinued support from incubators. This might be the case where businesses have been incubated over long periods. An unintended effect of business incubator support is that firms are kept alive that would otherwise not have survived, thus implying that selection to the incubator programme needs to be rigorous, as should the incubator exit process. Exit policies should prepare incubatees to leave and post-

incubation mentoring capabilities should be in place to improve chances of surviving the high-risk post-incubation period (Schwartz, 2009).

## METHODOLOGY

To investigate the success rates of small businesses after completing an incubation programme, a qualitative study was used. The data was collected through one-on-one, semi-structured interviews.

### Research Design

An inductive, interpretivist approach, exploratory in design, was used to gain a deeper understanding of the role played by business incubators on small business owners and to what extent they are successful in enabling growth and sustainability.

### Population and Sample

The population for this research is every entrepreneur in South Africa who has gone through an incubation program. The sample was made up of three groups. The first group was business owners who had been through an incubation program three or more years ago since that period has emerged as a high-risk period for small businesses (Schwartz, 2009). Thus, by ensuring that they had passed the high-risk phase the data from the sample enriched the results specifically as the research question is looking to gain insight into the sustainability of small businesses, post-incubation. The second group was made up of entrepreneurs who had been through multiple incubation programs but who had also been employed by incubators to train incubatees. The third group was entrepreneurs who are start-up specialists and who had managed and run business incubators. Having participants who fitted into all three groups allowed the researcher to triangulate from the data, thus providing a richer understanding of the incubator ecosystem.

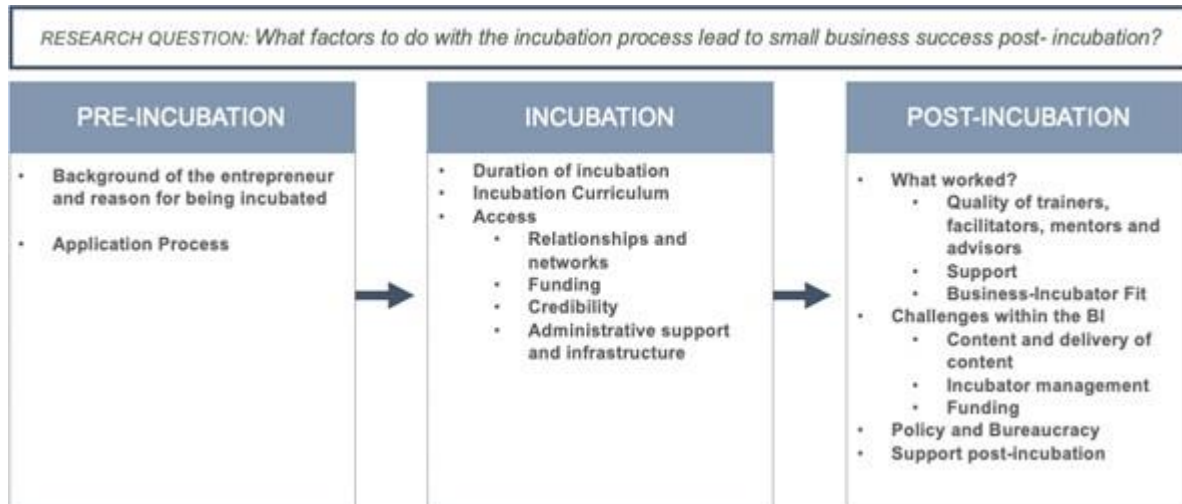
The decision to concentrate the study in Johannesburg was because Gauteng is by far the largest contributor to the South African economy (Statistics SA, 2018).

### Data Analysis

The transcriptions of the interviews were uploaded onto Atlas.ti. Themes and concepts were grouped into theoretical categories as part of the data analysis.

## FINDINGS

The research findings attempt to offer insights relating to the research question, namely: What factors to do with the incubation process, led to small business success post-incubation? The interviews point to a variety of factors from the “*pre-incubation*”, “*during-incubation*” and “*post-incubation*” phases which could determine the success of small businesses. The results are presented by phase in Figure 1.



**FIGURE 1**  
**STRUCTURE OF RESULTS PRESENTED**

Of the 11 respondents, nine had worked in corporate organisations before starting their business. Ten had tertiary qualifications directly linked to the roles they have in their businesses. Four of the respondents started their incubation with a business idea and developed the business during incubation. One entered the incubation programme and pivoted his business to start a new one. Three were offered a slot in an incubation programme after approaching potential clients for work. Reasons for applying for incubation varied. Some were seeking workspace; others funding and networks or information on how to grow and develop their business. Four respondents said they had researched incubator options and applied according to their needs at the time.

### The Application Process

The application process varied. The results presented an interesting mix of reasons why they joined incubation. There were respondents who were offered incubation having never considered going through such a process. Others carefully selected which incubators to apply for, based on whether the process was aligned to the needs and strategies of their businesses. A respondent who managed an incubator said that they had put processes in place to carefully identify the calibre of entrepreneurs they were looking to attract.

### Incubation

The incubation period varied. Some incubation lasted 3 months, others two years. Most respondents confirmed that they were required to attend full-day training sessions. The frequency of these varied. The shorter programmes required business owners to attend sessions weekly, while in the longer programmes, monthly. For the majority, sessions were compulsory. Most respondents attended training in person. One respondent's training was done online.

The training was focussed on gaining understanding of how business works; and how to optimise business functions. For the majority, the first step was to look at the actual business model. *"It's skills that I don't think any standard university can teach you, like a mini-MBA. You cover a whole lot of different divisions within your business"*. – Participant 1 (Group 1).

*“You'd have a coach for each session. Someone who deals with finance, and you'd have four or five different sessions with them. Then you move on to HR ...etc.”* – Participant 2 (Group 1).

The key themes that emerged were finance, marketing, HR, legal, sales, business model canvas and design thinking. Many of the respondents were not only learning subject matter through the incubation programs, but they also gained access to key relationships; networks; funding; credibility; business leads; administrative support and access to infrastructure.

Three respondents noted that the success of their businesses had not only been due to peer relationships but also due to those with facilitators within the incubation ecosystem. For one of the respondents, a handful of her business's core clients are facilitators whom she had met while being incubated. Another respondent noted that the incubator network helped them develop their business. *“Without their networks it would have been very difficult. So, we'd definitely not be where we are now, was it not for the networks”*. – Participant 8 (Group 1).

Every respondent interviewed, noted the importance of funding for small businesses. The respondents whose companies were older than five years said that funding was not their main issue while the younger companies noted it as their most important need. Only two respondents received funding through their incubator. The others who needed funding struggled to raise funds and it was their biggest challenge.

An important theme that emerged from the interviews, which is linked to both funding and networking, was credibility. Most of the respondents noted that purely being associated with their incubator conferred on them a greater credibility.

Office space and access to IT infrastructure were noted as important by all. One respondent had been running his business from home prior to being accepted into the incubation program. He stated: *“Having a base to work from and run my businesses while simultaneously being near people who could answer questions and contribute to solving problems was important”*.

## **Post-Incubation**

Four key themes emerged when identifying factors that had a positive impact on the respondents while they were being incubated. They are the quality of the facilitators; additional support provided; incubator-entrepreneur fit; and key lessons learnt that have helped them to grow and develop their businesses. All the respondents said that there was a need for high calibre and experienced trainers. One respondent said that an incubation programme she attended had facilitators from a big corporate who delivered valuable content. But most of the respondents said that to be of real value, trainers and mentors should be entrepreneurs themselves. *“They should actually be people who have started and run businesses. And because a lot of these people haven't, they are not very relatable to entrepreneurs, they don't know what entrepreneurs go through”*. – Participant 5 (Group 1)

While some of the respondents said that the content of incubation programmes felt generic, there were others who felt the opposite: that their incubation team had taken time to understand the needs of their businesses and took the trouble to ensure that the programme would help to accelerate them. Six of the respondents noted that through business model canvas workshops, they began to fully understand their businesses.

While many had positive responses about their incubation experiences, there were also frustrations voiced around the challenges they had encountered such as: ineffective or bad



content and advice; a mismatch or a misalignment of the goals of incubator and incubatee; management of the incubators; and unfulfilled promises, often having to do with accessing funding.

*“On a lot of these programs, they teach stuff, which is not relevant... They will get someone who does marketing for large corporates with huge budgets and give us full day workshops on this, but it is not applicable to small entrepreneurs”.* – Participant 10 (Group 2)

The timing and nature of what content is delivered, is also important. Many of the respondents felt that the information given was irrelevant to the stage of their business development and thus a waste of time. One respondent stated that the incubator did not know their business well enough to know what they needed. They had been paired with a mentor who treated them like a start-up.

One respondent noted that he had seen a high staff turnover of incubator management during his incubation. Managers left out of frustration for not being permitted to implement value-adding initiatives such as sourcing additional funding for incubatees or growing networks.

Another respondent voiced her frustration that the ecosystem had become so generic that she saw it as a cookie cutter approach. She commented that the incubation process became a tick-box exercise rather than a process that focused on growing small businesses.

Funding was a persistent theme. Almost all respondents, whether they needed funding or not, noted that incubators were not doing enough to help gain access to funding. This was something that they felt needed urgent change.

*“For me, as a start-up, you find that you go through these incubation programs and you jump through hoops and you get very little value”.* – Participant 6 (Group 1)

When asked if they received support post-incubation from the incubators, all but one of the respondents answered “no”. Two respondents added that although they did not have any formal support from the incubator, post-incubation, having completed the incubation, they often refer to the course material that they covered. *“The HR was extremely helpful, not when we were in incubation, but post incubation, because we still refer to some templates that they shared”.* – Participant 3 (Group 1)

All the respondents in Groups 1 and 2, barring one, said that the incubation programs had been beneficial. The single exception said he felt that it had slowed them down and the only benefit was access to free office space. When asked if their number of employees had increased post-incubation, most respondents answered no. In cases where the number of employees had grown, the growth was seasonal and project specific. The reason was they had built scalable businesses, or it was a deliberate decision to not grow the numbers of employees.

While the results showed that there was no formal, post-incubation support offered to business owners who had been incubated, business owners’ decisions were informed by what they had learnt in their incubation programs, except for one respondent who felt strongly that the incubation had caused their growth to stagnate during the incubation period.

## DISCUSSION

The purpose of business incubators is to offer support to businesses as an aid to their growth, development and sustainability (Rogerson, 2017).

## Pre-Incubation

The reasons why entrepreneurs participate in incubation programmes differ according to their needs, similarly, the criteria used by incubators to select appropriate candidates. Some applications required respondents to undergo rigid assessments as well as providing supporting documentation for their businesses or at least a business plan. Other respondents were offered positions in programmes with very little input required before entering the programme. By thoroughly assessing potential incubates, incubators can establish the level of support needed by entrepreneurs. Furthermore, it allows the incubator to evaluate whether they themselves have the capability of providing sufficient support. What emerged in the findings was that where there was a misalignment of intention or un-met expectations, entrepreneurs felt that the incubation programme was a waste of time; and, instead of supporting them to move forward, they felt the incubator stifled their growth. Lalkaka (2001) builds on this by saying that not only is there a need for alignment between incubator offerings and entrepreneurial needs, but there is also a need for the incubator to assess the skillset of their staff. The quality of an incubator's teaching is a critical component in being able to provide valued services to incubates.

As the research's intention was to establish the extent to which business incubators act in the success and sustainability of businesses post-incubation, it is evident that the pre-incubation phase plays a critical role in pre-disposing incubated businesses to success.

## Incubation

The results show that there was no set incubation period. The literature makes little or no mention of incubation periods but focuses instead on what makes incubators successful. One can assume that the duration of an incubation is incubator specific and is based on the particular context. Theodorakopoulos et al. (2014) note that with constant technological advances the need for face-to-face training and content delivery is shifting to virtual modes. This will also impact the duration of programmes as, in these cases, there are fewer constraints and increased accessibility to training material.

Carayannis and Von Zedtwitz (2005) note the importance of incubators' roles in training and delivering content where entrepreneurs can implement changes that are in line with best practice that ensure growth in their businesses. The results showed that all the respondents were exposed to training focused around understanding their business and how to improve.

In cases where respondents were forced to attend workshops on skills they already had, they questioned the integrity of the incubators and labelled them as inefficient. Some even felt it was part of a box-ticking exercise.

Having highly skilled and experienced incubator staff and management was a factor that led to the success of incubators (Bergek & Norman, 2008; Lose & Tenengeh, 2015). Respondents said they found little value in lessons taught by people who had never run their own business. Similarly, in cases where content suitable to corporates was taught in workshops, the same response was seen. Having access to advice and insights from experienced people not only acts as a form of support for entrepreneurs, but also offers opportunities for introductions to new stakeholders and key networks (Albort-Morant & Oghazi, 2016).

Opportunities that expand an entrepreneur's network for doing business can impact their growth (Hannon, 2005; Olawale & Garwe, 2010). All the respondents highlighted the important

role that relationships and networks play in opening the door to business opportunities. The results showed that internal relationships between incubated businesses and their personnel; and between the businesses and incubator staff were beneficial from the perspective of advice- and support giving; referrals and problem-solving. Carayannis and Von Zedtwitz (2005) state that having a sound network across the incubator industry is important for incubators themselves as it allows them to increase their service offering by being able to make comparisons around what works and what does not. While there were respondents who had benefited from access to networks through their incubators, there were also respondents whose incubation programme never gave them access; and others who felt they had never benefited from the networks.

While business funding was not a factor for all respondents, all needed funding when applying for incubation programmes; and all respondents emphasised that access to funding was crucial to all small businesses, especially in their infant stages. The literature states that funding is crucial to the success of any business incubator, and there is a direct relationship between incubator funding and the incubator's relationships and networks with key stakeholders (Lose & Tengeh, 2015). Where funding was a distinct need of the business, and where little assistance in accessing funds was evident, one could see the misalignment of what the business incubator promised to assist with and what they did. As seen in the results, if it is a critical need for a business to do so, then not accessing funding can lead to its failure.

Having a good relationship with key stakeholders can be of great importance to an incubator as they can open doors for the incubator itself (Dubihela & Van Schaikwyk, 2014; Lose & Tengeh, 2015). When incubators have these key relationships the incubatees, merely by association with the incubators and their stakeholders, are deemed credible.

Bruneel et al. (2012) mention that business support and infrastructure must form part of what business incubators offer when incubating entrepreneurs. By gauging the level of support needed by entrepreneurs, business incubators can tailor their support programmes and the offer of facilities accordingly (Lalkaka, 2001; Bergek & Norman, 2008).

## Post-Incubation

According to Schwartz (2009), the three-year period after leaving the incubator is the riskiest for businesses. It is in this period that nearly 30 percent of new businesses fail. These statistics speak more to businesses who entered incubation at an "infant" or "seed" phase. The literature also shows that businesses often only show signs of growth post-incubation. The reason is that during incubation most of the time is spent developing new products or optimising and improving existing business practices (Lalkaka, 2001). It was thus an interesting finding that none of the respondents in the study spoke about being prepared for their incubation exit, which is highlighted in the literature as important. Hausberg and Korreck (2018), remark on the importance of incubators having exit policies in place that adequately prepare entrepreneurs for post-incubation survival.

All the respondents were three years post-incubation and disclosed that their growth was in line with their strategy. While some of the respondents had seen headcount growth, the majority had built scalable businesses that did not require massive increases in headcount; and that where additional headcount was needed, this depended purely on what the needs of the business were at a point in time.

One of the contributing factors in the failure of small businesses is their lack of management and operational skills and their access to networks (McPherson, 1996).

Respondents emphasised that having access to successful entrepreneurs as facilitators, mentors and advisors enabled them as business owners to learn from lived experience.

Support offered by incubators takes many forms. Respondents referred to support as access to office space; being co-located with other businesses and integrating with experienced entrepreneurs from whom they could learn. This not only creates a knowledge-sharing ecosystem but also enhances networking opportunities (Lose et al., 2016).

To best serve an entrepreneur's needs, a business incubator has to have a deep understanding of the incubates business (Lalkaka 2001; Hannon 2005). Hausberg and Korreck (2018), note that by having stringent selection criteria in place they are able, through understanding the business needs, to gauge the level of support needed and thus better serve their clients.

Respondents expressed the view that some content delivered to them in workshops impacted on their decision-making. It was thus important for content to be suitable and applicable. The respondents valued the input from facilitators who were themselves entrepreneurs and who could select content that was focused on the incubatee's industry, business size, business life cycle and phase etc. Most respondents, however, reported that their programmes had been impersonal and box-ticking exercises. Lose et al. (2015) noted that incubators with hands-on and experienced teams can ensure that incubatees are nurtured and developed effectively. Inexperienced teams and poorly skilled staff do more harm than good.

According to Aernoudt (2004), one of the biggest challenges facing incubators is the ability to attract funding. Most incubators operate as non-profit entities and thus fund-raising initiatives are critical not only for their own survival but that of their incubatees. Often their stated service offering is to help incubatees to attract funding (Aernoudt, 2004; Lose et al., 2016). In the literature it is also stated that financial institutions are not geared towards high-risk investments (Swanepoel et al., 2010; Olawale & Garwe, 2010).

The demand for the expansion of business incubators in South Africa has grown and has evolved into a multi-stakeholder approach between government and the private sector (Masutha & Rogerson, 2014). All the respondents in the study had gone through a sponsored incubation programme where the funding to sponsor them had come from a private sector company. They therefore expressed frustration that the money spent on them was a BEE tick-box exercise by their sponsors and not a meaningful investment in truly developing and growing a quality supply chain. The intention of the article was to explore and define the factors contributing to the success of business incubators in developing small businesses, post-incubation. SMMEs have been shown to stimulate economic growth in developing countries (Ndabeni, 2008; Abor & Quartey, 2010; Olawale & Garwe, 2010). Business incubators seek to provide support that enables the growth of small businesses, thus having the potential to stimulate economic growth through abetting the long-term survival of small businesses (Dubihlela & Van Schaikwyk, 2014; Lose & Tengeh, 2015).

Business incubators in South Africa are considered a fairly new concept compared to the rest of the world where they have become an integral part of small business development and innovation over the past 50 years (Ndabeni, 2008; Lose et al., 2016). Due to their stated function, incubators attract large support from governments to ease developmental challenges by aiding job creation initiatives and enhancing business activity (Al-Mubarak & Busler, 2010; Rogerson, 2017). But questions are raised by incubatees about the efficacy of many incubators in meeting government policy intentions.

Although the services offered by incubators differ from incubator to incubator, their overall objective remains similar: to provide nurture and support to entrepreneurs in developing and growing their businesses (Bruneel et al., 2012). The environment and location of the incubator acts as a determining factor in the type of businesses they choose to incubate and how they decide to do it (Theodorakopoulos et al., 2014; Lose & Tenge, 2015).

Although the literature presented, provided insight into business incubators, the literature reviewed was largely from the incubator perspective. The exploratory study gained insight from entrepreneurs, facilitators, and managers of business incubators to triangulate the data and enrich the research findings.

A strong need for alignment between incubators and prospective incubatees was found. Incubators have clear goals, and they go beyond simply helping small businesses to grow. A key finding was that the incubators' selection criteria should be in line with what they can offer to incubatees. The findings showed that the criteria need to include: an assessment of the entrepreneur skills levels; what the entrepreneurs' business needs are; what the intensity of the support they need is; and a deep understanding of their business and industry (Hannon, 2005; Albort-Morant & Oghazi, 2016). The results showed that incubatees who felt their incubation programmes to be ineffective had not given much thought to the reason behind selecting their specific incubator. Thus, there is a need for entrepreneurs to make informed choices when applying for incubation.

Literature suggested that the value of incubators in developing economies is their ability to stimulate job creation. Because of this association it seems to have implied that the growth of small businesses related not only to financial growth, but the growth in number of employees. Some of the literature has indicated that for this reason, to determine whether a business incubator is successful or not is dependent on the number of jobs incubated businesses create, while others believe that a business incubator should be determined on the long-term survival of incubated businesses. The interview data showed that although all the incubated businesses are thriving, they have not grown in number of employees, and this was a deliberate decision aligned to their strategy. Data collected also showed that some businesses believed that they would have built their business without the help of an incubator. We therefore can suggest that success of incubators should not be dependent on job creation per incubated business, but rather how they positively assist business survival and on the number of businesses that succeed.

## Recommendations for Business

Having considered the literature as well as the data and findings from interviews, the following recommendations are presented:

- Corporates in South Africa have invested in sponsoring incubation programmes as part of the Enterprise and Social Development (ESD) spend. While this helps fund incubators as well as develop small businesses, respondents from the study who were recipients of such programmes expressed that some of these programmes were more of a tick box exercise than an actual developmental goal. It is therefore suggested that corporates who do use their ESD funding for such programmes are actively involved in ensuring that the quality of the programmes are comparable to industry leaders, and that the recipients gain true value.
- Corporates should do more in the way of partnering with incubators to share expertise and industry knowledge that can help small businesses.

- Corporates who sponsor incubators should ensure that post-incubation the incubated business form part of the supply chain and are automatically added to their preferred supplier lists as well as consider providing access to funding for incubatees.
- Government policies, such as tax, labour laws and ICT costs need to be revised to encourage the development of small business.
- Incubators need to collaborate to build knowledge sharing across the ecosystem. Through cross-collaboration incubators and entrepreneurs can build and grow their networks.

### **Limitations of the Research**

- The population of the study is geographically focused on Johannesburg. A study including other geographies may have yielded different results.
- None of the respondents had failed businesses. This was not pre-determined but having failed business owners might have impacted the findings.

### **Suggestions for Future Research**

While there is literature on business incubators, there is a need for research on incubators particularly in South Africa. The following are suggestions for future research:

- An exploration in understanding the differences between state-, corporate- and private-run incubators in success post-incubation and their effectiveness.
- A comparison between business incubators in Johannesburg and other big centra in the effectiveness of growing sustainability.
- An exploration in the relationship between including entrepreneurial focused subjects in the school curriculum and the impact on entrepreneurial activity.
- An exploration in the relationship of entrepreneurial activity since the growth and investment in business incubators.
- An exploration in the effectiveness between accelerators and incubators in stimulating entrepreneurial activity and small business growth.

## **CONCLUSION**

Key findings of this study were analysed and contrasted with existing knowledge on business incubators from the literature. The exercise yielded insights on factors that drive success in businesses, post-incubation. Stakeholder management and the importance of accessing networks (leading to funding and business opportunities and/or markets) was a key finding as these factors have been shown to have an impact on incubators. The obverse of identifying what makes business indicators successful is that the same key factors suggest what business incubator best practice should look like.

By stimulating innovation and entrepreneurial activity, business incubators have gained the support of government and managers of the enterprise development spend. While this is certainly a possible source of funding – always a key need of incubators – it also introduces a dark side to incubation funding, namely the danger that funding might simply become a BEE tick-box exercise by corporate South Africa. There is a call for this temptation to be discouraged since business incubators – clearly conceived and properly used - have a demonstrated potential to stimulate economic activity by graduating businesses that can contribute significantly to the economy. And this is a clear imperative for South Africa.

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