

ISME should create a business incubator

By John M Andre

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Abstract

University business incubators (UBIs) exist around the world. China has 50 UBIs and 534 incubators overall. UBIs allow startups to reduce their overhead by taking advantage of shared facilities and having close mentoring relationships with lecturers and external business professionals. Student entrepreneurs starting a company would gain extensive real world knowledge which would increase their opportunities for a better job even if their new venture did not succeed. Vietnamese universities are in a unique position to support our students and strengthen the Vietnamese economy by creating UBIs. We could fund promising entrepreneurs in a way that would make the UBI become financially self-sufficient after an initial startup period.

1 Introduction

Innovation is what happens when creativity meets brilliant execution.

Our universities contain many bright, creative, hardworking students. All of those who have the great pleasure to teach here can identify multiple students each semester who are destined for greatness. They work a little harder than the others. They know a little more. Their insights are a little more unique.

It has been reported widely that from now until 2050 Vietnam will be one of the two fastest growing economies in the world (PwC, 2015).

While universities can generate new ideas through research, it is execution which is responsible for innovation. Execution comes from companies, not from universities.

Combining the facts above, it seems only reasonable that if we, as a leading Vietnamese university, are serious about supporting innovation in Vietnam, we should be helping our students start their own companies by opening a university business incubator (UBI).

This position paper takes the position that Vietnamese universities in general, and the International School of Management and Economics of National Economic University in particular, should start building an incubator. The paper will discuss what UBIs are and the benefits they offer to various stakeholder groups. It will then continue outlining what needs to be done to implement a UBI.

2 What is a UBI?

A UBI involves a shared workspace where startups can operate. The startups rent the space they use, often on terms favorable to the startup (subsidized rents, short term contracts). The space is big enough that startups can easily expand as needed. The facilities will usually include shared

equipment (copier, broadband internet, etc.) as well as common areas (reception, meeting rooms, etc.). UBI's also include access to support staff and mentors.

The support staff are there to act as assistants to the startups (the startups can be charged for this or it can be bundled into their rent). The mentors are often university lecturers. When a startup needs legal advice, they can discuss their issues with a law professor. When they need assistance with strategy, they can engage the person who teaches business strategy. Not all services must be provided in house. Services which the university cannot easily provide can be provided by partners. Indeed, one of the great advantages to a startup of joining a UBI is having access to an entire network of professionals.

Another benefit of being in a UBI is that startups are located in close proximity to other startups. This proximity leads to greater communication between startups, which is valuable to each startup. Sweeney wrote that the probability of two people communicating at least weekly is 0.98 at two meters but 0.06 at 50 meters (1987 cited in McAdam & Marlow, 2008). When one startup is about to make a pitch for funding from an investor, another startup would be able to share their experience and what that particular investor considers most important.

When an entrepreneur is faced with thousands of questions, like "What percentage of sales should I expect to spend on sales commission?" it helps to be able to ask others who have recently dealt with the same issues (McAdam & Marlow, 2008).

3 How common are they globally?

There are 7,000 incubators in the world (The International Business Innovation Association, n.d.). By the end of 2005, there were 534 incubators in China, with 50 of those being run by universities (Matt & Tang, 2010). The US has the most total incubators followed by Germany, China, and Brazil (Brazil has 400 incubators) (Chandra & Chao, 2016).

UBI's have become quite common. Oxford University Innovation (the UBI of Oxford University) claims that UBI's are becoming a requirement, rather than a luxury, for UK universities (2014). The University of West England, amongst other universities around the world, has its own UBI called Enterprise Zone (University of West England, 2016). Previously they had at least one other incubator called UWE Ventures.

4 How common are they Vietnam?

There are between 10 and 50 (accurate numbers are difficult to verify) incubators in Vietnam (Vietnam has approximately 50% the population of Brazil but only 2%-12% the number of incubators). These numbers include accelerators which are time-limited incubators (for example, a startup can join just for 13 weeks). Some of these incubators are run by private universities like FICO from FPT University. Others are run by public universities including HCMUT's TBI (HCMUT-TBI, n.d.) and BK Holdings from Bach Khoa University (BK Holdings, n.d.). Some are run without any university affiliation. Given the international trend of universities starting

incubators and the future economic prospects for Vietnam, it is only natural that most universities will eventually offer incubators to their students. We have chance to be at the forefront of this trend, showing our commitment to innovation.

5 Benefits, costs, risks

Below are UBI-related issues to be considered. They are categorized by stakeholder group.

| Stakeholder | Benefits | Costs | Risks |
|------------------------------|---|---|--|
| Student entrepreneurs | <ol style="list-style-type: none"> 1. Experience, better future job prospects even if startup fails 2. Opportunity for profits 3. Added credibility for startup 4. Pool of shared resources to reduce overhead costs 5. Access to social and business networks 6. Sharing knowledge with other startups 7. Increased understanding of subjects studied | <ol style="list-style-type: none"> 1. Time 2. Effort (hard work) | <ol style="list-style-type: none"> 1. Neglecting studies could hurt grades 2. Could lose initial investment 3. Shared facilities increases risks to intellectual property |
| Other students | <ol style="list-style-type: none"> 1. Knowledge gained from observing startups 2. Opportunity to work at startup | | <ol style="list-style-type: none"> 1. Those who apply but are rejected might feel disappointed |
| University | <ol style="list-style-type: none"> 1. Increased reputation for being a leader (improved student and faculty recruitment) 2. More qualified students after graduating (faster to get jobs → improved student recruitment) 3. Opportunity to share in profits | <ol style="list-style-type: none"> 1. Setting up facilities 2. Support staff 3. Mentors (lecturers) 4. Funding startups | <ol style="list-style-type: none"> 1. Students being distracted away from studies lowering grades 2. Could lose money if startups fail 3. Entrepreneurs are too successful and drop out of school |

| | | | |
|----------------------------|---|---|--|
| Local businesses | <ol style="list-style-type: none"> 1. More customers 2. More suppliers 3. More potential acquisition targets | <ol style="list-style-type: none"> 1. More competition for customers and labor | |
| Government | <ol style="list-style-type: none"> 1. More jobs created 2. More tax revenue 3. Less dependence on FDI 4. More national autonomy | <ol style="list-style-type: none"> 1. Grant money for startups 2. Grant money for UBI | |
| Lecturers | <ol style="list-style-type: none"> 1. Chance to share knowledge 2. Increased connection with current business activities | <ol style="list-style-type: none"> 1. Time required to support startups | <ol style="list-style-type: none"> 1. Startups could require more time than anticipated |
| Researchers | <ol style="list-style-type: none"> 1. Opportunity to commercialize their inventions | | |
| Banks and investors | <ol style="list-style-type: none"> 1. Greater opportunity to invest 2. Concentrated place to find investment candidates | | |

6 Student interest

If we spend the time and money to setup a UBI, would the students take advantage of it? Informal polling over the past two years of final year undergraduate students (in ISME's BABM program) revealed approximately 10%-20% of students showed an active interest in taking advantage of a UBI, if one were offered by ISME. There is no reason to restrict the UBI to undergraduate students. Graduates and post-graduate students could be included as well.

7 Benefits

According to UKBI, being in an incubator increases the chance of business success after five years from 30% to 85% (cited in Oxford University Innovation, 2014). This increased chance of success comes from all of the benefits to the startup: A lower cost structure, increased access to knowledgeable advisors, increased access to social and business networks, and the added credibility of being associated with a university.

Increasing the survival rate helps not only the entrepreneurs but also the UBI and the economy of Vietnam.

8 How would we measure the success of our UBI?

As you can see from one of the top business schools in the US (Wharton), the most important value that is gained is what the students learn starting their own company.

Few student start-ups become Facebook. Most don't even make a profit. Jeffrey Babin, business adviser for Wharton's Venture Initiation Program at the University of Pennsylvania, an incubator with 31 student start-ups, warns that "ideas are a dime a dozen — whoever gets it to market in the fastest and most effective manner wins." Success is elusive, Mr. Babin says, and young founders often decide that it makes more sense to work for someone else. But, he adds: "The value of the venture may be zero. What you have learned? It's invaluable."

(Pappano, 2012)

It is important to consult with the various stakeholders to identify the objectives of the UBI (Bergek & Norrman, 2008). Only when the objectives have been clearly identified can we determine how to measure success.

9 What are some key support services we should supply to our startups?

According to NBIA (cited in Zablocki, 2007), the most common services provided by incubators include:

1. Office services
2. Business / strategic planning
3. External debt financing
4. Government grant / loan assistance
5. Training / educational programs
6. Financial management
7. Sales / marketing
8. External equity financing

10 How would we evaluate which startups should join the UBI?

According to Bergek & Norrman (2008), in their study of Swedish incubators, there are two broad categories for selection:

1. Survival-of-the-fittest vs pick-the-winner, and
2. Idea-focused selection vs entrepreneur-focused selection

Survival-of-the-fittest involves letting most applicants join the incubator and letting the market decide who survives while pick-the-winner involves carefully selecting which candidates should join. Pick-the-winner would allow us to be more focused on how we allocate our resources but survival-of-the-fittest would provide the greatest chance to the greatest number of students.

Idea-focused selection is where only the idea is considered. If the idea is a superior idea, then the startup can join the UBI. Entrepreneur-focused selection is where the founders of the startup are evaluated for technical competencies, drive, and resourcefulness to decide who is most likely to succeed. The best approach would seem to consider both the idea and the entrepreneur to see which combination is most likely to succeed.

11 What would it take to implement a UBI?

The following is an estimated timeline for setting up a UBI as recommended by Zablocki (2007):

- Feasibility: 3 months
- Development: 9 months
- Renovation: 3-12 months
- Early-stage operations (up to anticipated break-even point): 18 months

There is support in Zablocki's work for why these steps should not be skipped (for example, taking time during the feasibility study to engage stakeholders, secure funding from government, building consensus between university and civic leaders, etc.).

12 How would we fund the UBI and the startups?

There are many sources of funding for entrepreneurs and one of the services a UBI can offer is helping entrepreneurs identify the sources of funds available for them. UNESCO's International Fund for Cultural Diversity invests in innovative solutions that strengthen culture and has distributed \$4,000,000 (United Nations, 2013). This is just one example of available funding that we could help our entrepreneurs acquire.

Many governments around the world offer funding for UBIs. UBIs often fund startups in trade for equity in the startup. The funding can also be tied to an investment by the entrepreneur (for example, the UBI gives \$5,000 in funding for 10% of the equity if the entrepreneur also invests \$5,000 of his or her own money). With proper execution, a UBI can become financially self-sufficient, after an initial startup period (like any business).

If the goal is to have students learn as much as possible by being involved with the day-to-day execution of a business, that business must pay for its activities. The initial funding would be used to cover the monthly expenses of the startup (rent, marketing, etc.). The entrepreneur would quickly realize the importance of both sales and external funding (as well as other operational issues).

There is plenty of funding available in the world today. There is \$7 trillion worth of developed-country (Switzerland, Sweden, Japan, ECB, etc.) government bonds trading at negative interest rates (Sagami, 2016). It should not be difficult to find venture capital money, as well as other funding, which would be interested in our entrepreneurs. Our entrepreneurs should plan on, and be guided by us through the process of, finding funding from loans, venture capital, and grants.

13 Conclusion

Vietnam is in a unique position. Our growth is projected to be one of the highest in the world over the next 30 years. Universities are in the unique position to identify successful students and offer the kind of training and advice to startups in a symbiotic relationship between entrepreneurs and lecturers. By creating a UBI, universities can support students as well as strengthen the Vietnamese economy.

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