

Entrepreneurship and SMEs through Business Incubators in the Arab World: Case Study of Jordan

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Abstract: Business incubators (BI) have proved to be effective tools for looking after Entrepreneurship and SMEs to tackling unemployment, diversifying economies and creating wealth in numerous developed countries. By providing timely help and support for new ventures, business incubators hold the potential to create and develop entrepreneurial talent at the micro level and foster an environment for entrepreneurship at the macro level. This research aimed to determine whether the economic conditions for business strategy in the Arab World are favourable to a programme of business incubation and to suggest directions on the best ways to implement more business incubation in the Arab countries. To meet this aim the study undertook a snowball approach and distributed a designed questionnaire to the incubation units in Jordan. The findings of the research contribute to the literature of business support services, innovation and entrepreneurship development and will enhance the knowledge and skills within the incubation industry. The centre's incubator programme is designed to accelerate the successful development of young entrepreneurs and their businesses.

Key words: Arab world; business incubators; entrepreneurship; innovation; Jordan and SMEs

JEL codes: M1

1. Introduction

Start-up small and medium enterprises (SMEs) are uncertain in nature. Entrepreneurs, although technically competent, do not always have the requisite financial, managerial, marketing or administrative capabilities needed to reduce the start-up risk. New companies often fail because entrepreneurs do not have these skills they have not hired people with these necessary skills (Masadeh, 2008). The role of SMEs in growth and development is globally recognised. It is demonstrated by the quantity of studies, research and literature dedicated to the subject. Both in industrialised and developing countries, governments have been playing a key role in defining policies, programmes and instruments which support the development of small and medium enterprises (Scaramusi, 2002). Unfortunately, the majority of any start up business's capital is spent on administrative and logistics expenditures (utilities, secretarial, accountant fees, and on employees' salaries whether full or part time employees), market studies and consultations, which may not be in the entrepreneurs priority. Therefore, SMEs may face significant problems and obstacles due to their lack of experience in dealing with these challenges (Hamad, 2007). SMEs need to adopt modern technology to promote business.

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The emergence of new technologies and the increasing globalisation of research, development and investment have significantly changed the nature and scope of industrial competitiveness. Where the pace and pattern of technical changes have altered sharply, and many countries are being left further behind (TID, 2001). Nevertheless, several industrialised countries now have the technical infrastructure and skills for major innovations; for all the others, advanced technologies when adapted, applied, and absorbed can help improve peoples' lives. Technological progress and entrepreneurship have dramatically changed the global economic landscape (Lalkaka, 2002). These forces operate in the framework of open markets, government deregulation and privatisation, together with fresh concerns for the human condition, good governance, environment preservation, gender balance, and growth with equity (Lalkaka, 2001). The technology helps people to produce more innovations. According to Smith (2010, p. 5) innovation is, "The first commercial application or a new process or product or innovation is the successful exploitation of ideas". Innovation plays an important role in the development of successful economies (O'Riordan, 2008; Hamad & Arthur, 2011). Innovation is also widely recognised as a key factor in the economic development of a nation (Markatou, 2011), especially countries and regions that lack the capacity to innovate. Consequently, there is a lack of ability to improve their positions in the global market. Innovation helps countries and regional groupings achieve development, industrial and service sectors (United Nations, 2005). Those countries must encourage the growth of innovative and service businesses. Innovation can be a key motivation of growth, regardless of the conditions of the larger economy. It has been a topic for discussion and debate for many decades. In the nineteenth-century, some economic historians observed that rapid economic growth was the result of technological progress (Trott, 2005). However, the policy interventions can play an important role.

Interventions aimed at creating an environment in which businesses can flourish are a central element of public policies, in order to improve the competitive environment of firms, large amounts of finance should be committed to the building and reinforcing of technological infrastructures, namely into the implementation and development of business incubators (Vedovello & Godinho, 2003). One of the mechanisms employed to nurture small firms for more than three decades is, "business incubation". According to the National Business Incubation Association (NBIA, 2011), Business incubation is a business support process that accelerates the successful development of start-up and fledgling companies by providing entrepreneurs with an array of targeted resources and services. These services are usually developed or orchestrated by incubator management and offered both in the business incubator and through its network of contacts. A business incubator's main goal is to produce successful firms that will leave the programme financially viable and freestanding. These incubator graduates have the potential to create jobs, revitalise neighbourhoods', commercialise new technologies, and strengthen local and national economies' (Hamad, 2012). Today, a lot of attention is paid to technology transfer and commercialisation. For instance, technology Incubators, technology parks, and most governmental actions are designed to support innovation creation and industrial deployment (Mazurkiewicz et al., 2011). Many governments view business incubators as a dynamic tool for promoting new SMEs with the macro objective of economic development and job creation. The major role of Business Incubators is to help entrepreneurs start or expand their business by providing various functions in a supportive environment (Alsheikh, 2009). The establishment of technology business incubators is one measure of nurturing nascent ventures by providing focused counselling and facilitation services together with smart workspace and shared office facilities (Lalkaka, 2002).

As a broad approach to enterprise development, business incubators are considered to be a positive and

effective means of public intervention. Businesses generally report satisfaction from services and increases in turnover higher than non-incubated businesses (Nahavandi & Chesteen, 1988). International reports indicate that most of the Arab countries which include Libya, face numerous challenges related to the inefficiency of their goods, labour, and financial markets, as well as underdeveloped infrastructures and low levels of technological adoption and Innovation (Hamad & Arthur, 2011).

The research is designed to be a descriptive study, given that it aims to describe what exists, with regard to exploring the rationale for the provision of business support, specifically business incubation as practiced by Arabic business innovation centres, and investigates the degree and extent to which their activities impact on the performance of assisted businesses.

The outcomes of this paper to contribute to the literature and thorough understanding of the incubation concept and processes especially best suited to the Arabic situation. In addition, fully academic researched knowledge on the entire incubation system will lead to addressing the implementation gaps not only in Jordan, but also regionally.

2. The Problem

According to the Global Competitiveness Report (Schwab, 2010) produced by World Economic Forum 2010-2011. It was concluded that most Arab countries, face numerous challenges related to the inefficiency of their goods, labour, and financial markets, as well as underdeveloped infrastructure and low level of technological adoption and innovation.

The SMEs contribution to innovation and economic growth is part of the economic system, and in the light of SMEs policies reviewed throughout the World, whether in developed countries or in the others, in particular the Arab States, which are in transition, such as Egypt, Tunisia and Libya, the SME policy rationale is strikingly consistent in its coherence and consideration of other social and economic issues. For instance, to provide employment opportunities for the elderly, youth and women, and the creation of new lifestyles, supporting the development of new forms of work organization and new working arrangements, fostering innovation and entrepreneurship.

One of the more popular techniques to assist entrepreneurs and SMEs survive their early stage and grow and prosper in the community is so called business incubators. The small business incubators provide physical facilities various sizes of offices or office suites, warehousing and manufacturing space, common loading docks, shared board or meeting space, kitchen facilities and a common reception area. The incubator provides a receptionist to greet visitors and to assist tenants in using a shared copier, fax, and audio-visual equipment and often times computers (VBIA, 2011).

This study will attempt to answer the following questions:

- What are the types of incubators currently in operation in Jordanian?
- What are the types of financial model in Jordanian Incubation units?
- What are the target group and sectors in Jordanian Incubation units?
- What are the similarities and differences between SMEs and entrepreneurship?
- What is the contribution of SMEs within the incubators to the economy in the incubation unites in Jordan?

3. Aim and Objectives

This research will explore the rationale for the provision of business support, specifically business incubation as practiced by Arabic Business Innovation Centres and investigate the degree and extent to which their activities impacts upon the performance of assisted businesses.

The research will investigate the development of business incubation and the policy rationale for the modality, specifically the role and importance of SME's and includes an investigation of business incubation as developed and practised by the Arab Business Innovation Centres and its impact on incubated businesses. In addition, this research will identify:

- (1) The type of incubators and the financial model in Jordan Innovation Centres.
- (2) The funding, target group and target sectors of incubators in Jordan Innovation Centres.
- (3) The differences in between SMEs and entrepreneurship.
- (4) The contribution of SMEs within incubated Jordan Innovation Centres.

4. Research Design and Methodology

According to Bryman & Bell (2011), research design provides a framework for the collection and analysis of data, as a descriptive research. This study is designed to be a descriptive study, given that it aims to describe what exists, with regard to exploring the rationale for the provision of business support, specifically business incubation as practiced by Jordnian Business Innovation Centres, and investigates the degree and extent to which their activities impact the performance of assisted businesses. However, it goes beyond the scope of a descriptive study as it aims to explore and analyse the descriptive results by responding to their questions. In addition, it adopts the interpretative method with the intention of providing further meaning to the results by responding to questions. As regards to the research design of this research the frame work of the study contains both types: descriptive-what things are like, and explanatory — why are they like that. Hence, this study is constructed within descriptive and analytical designs, as a case study design framework with cross-cultural data. Two types of tools research were used in this research: 1) A questionnaire was developed and distributed to some of business incubators in Jordan; 2) Opened qualitative interviews targeted experts in Jordan.

5. Research Method

Quantitative measurement is perceived as more accurate, valid, reliable and objective than qualitative measurement, due to the former's scientific nature. However, this does not mean that qualitative research is less valuable. Research methods include specific instruments, quantitative research such as questionnaires, and qualitative research such as structured interviews and participant observation. These techniques include the need to listen and observe people from the chosen sample (Cohen et al., 2011). As a result of difficulties contacting all the incubator managers in the Arab Countries, I also try to focus on a specific geographic area (Jordan). The sampling approach used was "snowball sampling", which means that a number of incubators that fit the definition were asked to fill the questionnaire, then they forward the questionnaire to others they know matching the same definition (Welch, 1975). Using the snowball sampling method, five responses were obtained out of six required sample size; leading to a response rate of around 83%. I also interviewed 10 leading figures in Jordan to obtain information about SMEs, Entrepreneurship and BI in Jordan.

6. Discussion and Data Analysis

The questionnaire is divided into four main parts excluding the general information: the first part covers the incubator information, the second part focuses upon the selection process and application. The third part addresses the incubators programme and services, and the final section is analyses graduation and impact. According to the respondents, the Business Incubation Programme in Jordan has been running for the last seven years, where the first Incubator was founded in 2005, and the last Business Incubator was established in 2010.

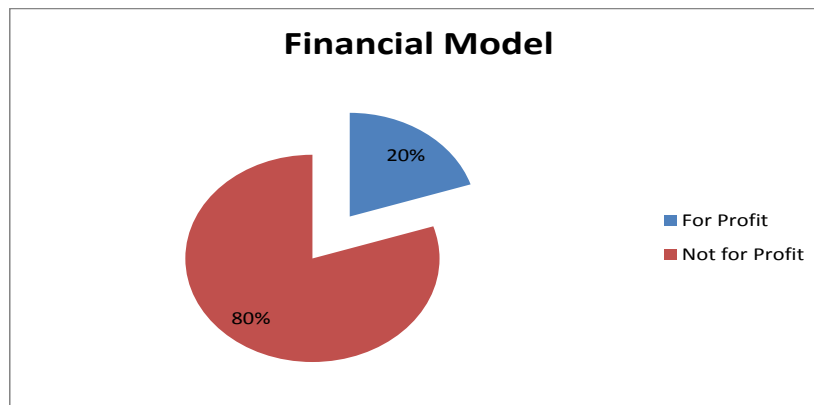


Figure 1 Incubator Financial Model in Jordan

It can be seen from Figure 1 above that 80% of incubators in Jordan are not for profit and 20% are for profit. It is also clear from the chart below that the incubation programme is supported by government and private sectors as well.

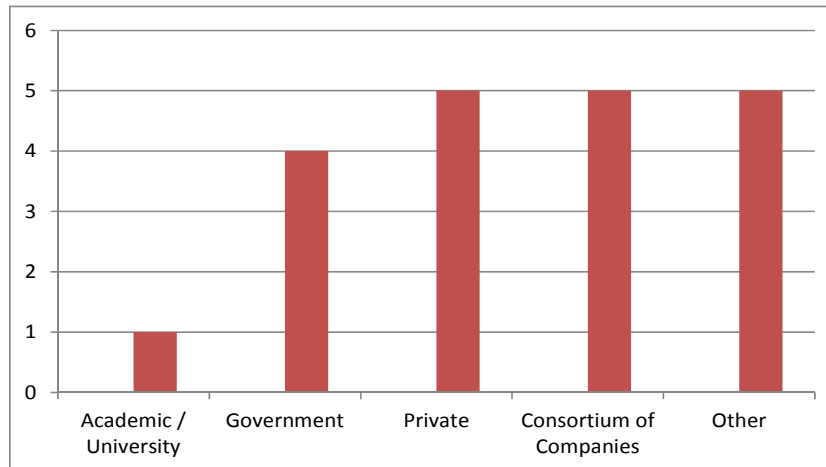


Figure 2 Incubators Type

Figure 2 shows that the target group of Jordanian Incubators are focused on all groups. All incubators focus on rural enterprises, urban enterprises and women, whereas 80% Of incubators focus on rural enterprises, urban enterprises women and youth or students. 60% of Jordanian incubators focus on all of the aforementioned groups as well.

- **The criteria used by the incubation unit to assess applications**

The criteria used include 80% of Personal Attributes and 20% of Idea feasibility. Personal Characteristics

factors included, project applied-idea, need for help and assistance, create jobs, profitable business, and to act in an ethical and legal manner. Qualification of Tenants/Partners, Business Value of the Project, Project description (Project scope, Project Methodology, Action Plan with Time schedule, Costs/effectiveness of proposed budget)

When the application is received, it is assessed by the Incubator Team, and the incubator manager issues a report, which includes the team recommendations, then the incubator manager meets the applicant and discusses the application with them. If the application is expected to include an added value and good chance, it is applied to the technical committee which decide whether to incubate the project or not (see the Figure 3 below).

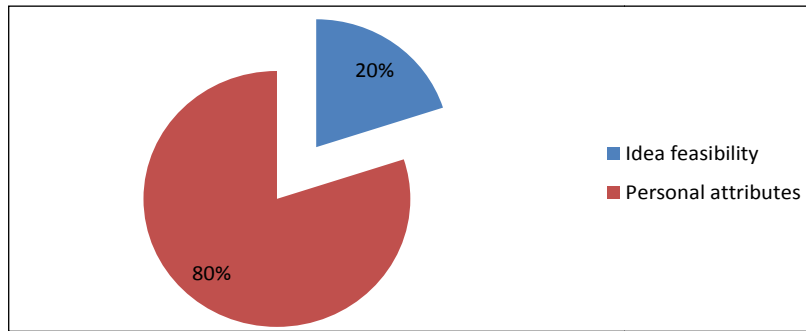


Figure 3 The Criteria Used by the Incubation Unit to Assess Applications

• How do you obtain new technology?

By looking at Figure 5 there were variations found as 40% respondents answered that they get new technology by licensing and other 40% answered by using other methods. While 20% of them answered by purchasing.

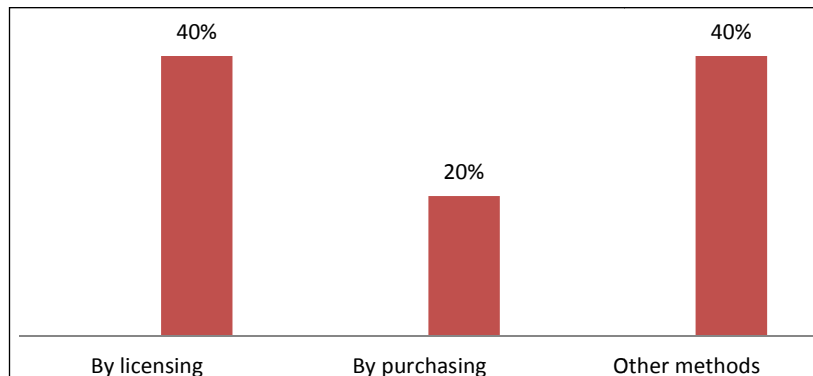


Figure 4 Obtaining New Technology

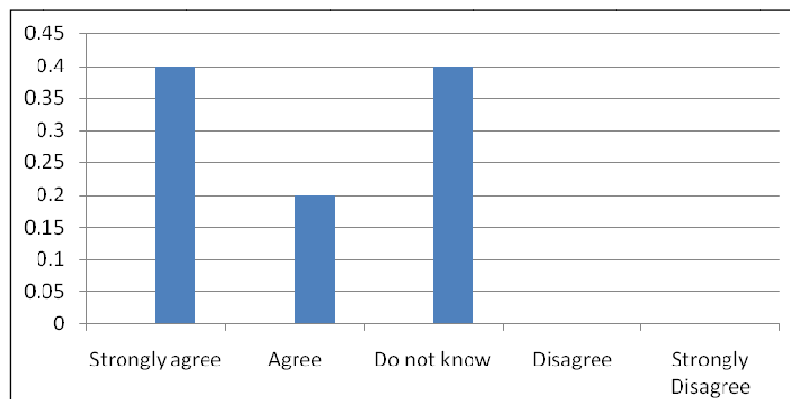


Figure 5 The Extent to Which They Think SMEs Import New Technology to Jordan

• **Dose the current legislation for SMEs encourage or discourage the use of new technology?**

In this question respondents were questioned about whether the current legislation for SMEs encourage or discourage the use of new technology? The question asked was in the scalar form and from a total of five respondents two replied that they did not know, and three said that it encouraged the use of new technology.

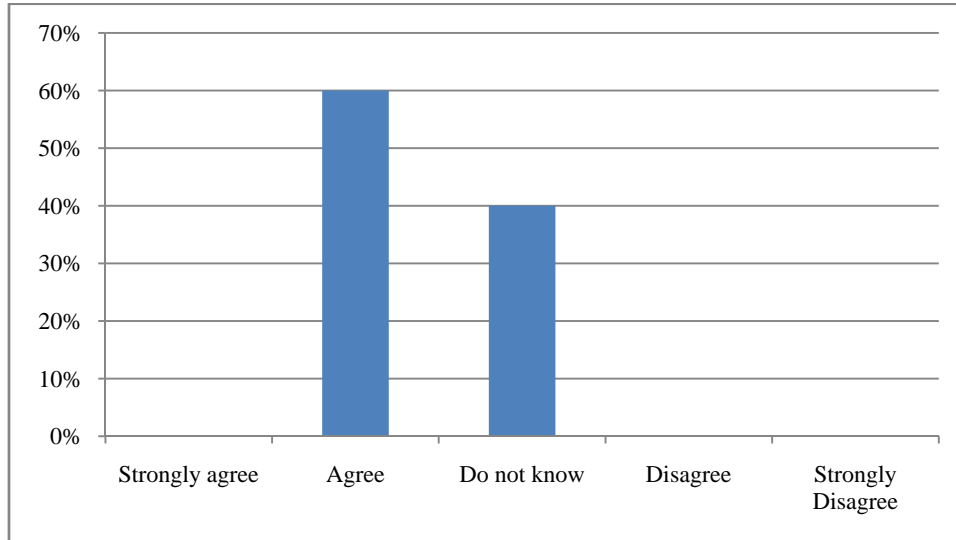


Figure 6 The Extent to Current Legislation for SMEs Encourage or Discourage the Use of New Technology

• **Do you think that small and medium enterprises (SMEs) contribute to the elimination of unemployment?**

In this question respondents were questioned about whether they thought that small and medium enterprises (SMEs) contribute to the elimination of unemployment. The questions asked was in the scalar form and from a total of five respondents, two strongly agreed and other two agreed. One of them strongly disagreed.

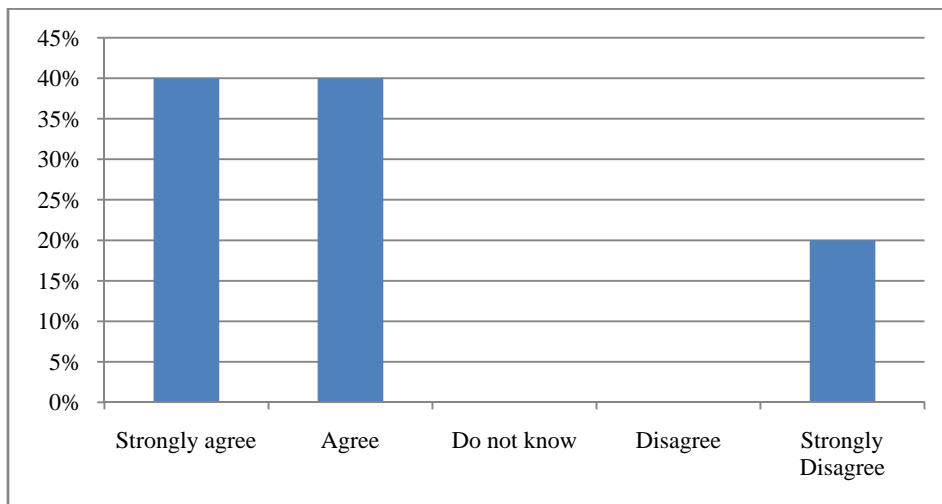


Figure 7 The Contribution of SMEs to Elimination of Unemployment

7. Discussion

Through interviewing a number of experts in Jordan, two major areas of similarities between SME and

entrepreneurship are pointed out within the context of this paper. The first similarity is that, both SME and entrepreneurship aim towards the same objective. They have both been noted for employment creation, economic growth, economic development and economic transformation. They also play a significant role in the socio-politico-economic transformation of national economy. In addition, they are affected by the same factors. This implies that their success or failure is being determined by a set of similar factors. For instance factors such as: environment, culture, location, individual characteristics, firm characteristics etc all affect both SMEs and entrepreneurship development. In the study of SMEs and entrepreneurship development, these factors cannot be neglected as they greatly determine the outcome of both concepts.

Furthermore, the SME owners (Owner-managers) and entrepreneurs tend to possess the same or similar characteristics or traits for business management. Both possess traits such as; Initiative (self initiated individuals), Perseverance (strong determination, patience), emphasis on diligence, commitment to agreement/contract, orientation towards perseverance (patience), systematic planning, creative problem solving, Self-confidence, firm and the ability to convince, Use of Influencing strategy (ability to be able to influence other people), commitment, determination and perseverance, drive to achieve success, strive for growth and expansion, personal responsibility, Integrity, reliability, and ability to seek and use feedback (Lucky, 2012).

Both entrepreneurship and SMEs have on many occasions been used interchangeably, that is, each of these concepts have been used synonymously. Lucky and Olusegun (2012) noted that SME firms have been generally used as a proxy for entrepreneurship. However, this is wrong as both concepts differ considerably in many areas. First and foremost, it is crucial to point out that entrepreneurship is not SME and SME is not an entrepreneurship. Entrepreneurship is a process that leads to creation of SMEs while SME are just firms or business ventures that are being managed by individuals or Owner-managers as they are often called. Therefore, in terms of purpose, entrepreneurs discover, innovate and establish businesses. They seek for and discover business opportunities, and then exploit these business opportunities whereas the SME-Owners capitalized on managing their businesses or firms. They hardly engage in looking for business opportunities like the entrepreneurs. Hence, they produce, buy and sell goods and services.

In addition to this, they also differ in terms of the different and special skills used by entrepreneurs and SMEs owners. They both seem to possess different and unique skills. For instance, the entrepreneur possesses the skills to discover and innovate which allow him to always seek for new businesses or ventures whereas the SME-Owners possess the managerial skill that enable them too effectively and properly manage their firms or businesses without many problems. Incubators will not constitute a panacea for ills that afflict entrepreneurship in the Arab countries. They do, however, provide effective means for achieving many worthwhile objectives in a number of directions. This is demonstrated by experiences in developed and developing economies, where new employment opportunities based on new technologies has been created to meet the challenges of growing populations and new global, regional and local changes (Shalaby, 2007). Furthermore according to the latest European Trend Chart on Innovation, Jordan does not as yet have a formal innovation policy. Nevertheless there is a good understanding of the need to adopt a coherent approach to fostering innovation policy that crosses ministerial and institutional lines. The Higher Council for Science and Technology is in charge of the coordination of all science and technology related initiatives in Jordan and it plays an important role in the development of a national network of incubators (INN for MED, 2012).

8. Conclusion

This research examined the Entrepreneurship and SMEs through Business Incubators in the Arab World (Jordan). SMEs and entrepreneurship development; it particularly, distinguishes between SMEs and entrepreneurship development. Both SMEs and entrepreneurship have been acknowledged to be important tools for economic transformation and economic growth of a country. In this, they are believed to aim at the same objective. On this note, it is clearly pointed out in this paper that SMEs are firms that engaged in one form of business or the other. In terms of size, they are classified into small and medium and their definition vary according to countries, industries, number of employees and asset value. On the other hand, entrepreneurship is the process of creating SMEs or business ventures which are later seen as small and medium sizes of firms or businesses. Thus, this paper reveals that entrepreneurship is a process and not SME. On the other hand, SMEs are firms and not entrepreneurship. Based on this, the paper draws the conclusion that SME is different from entrepreneurship. Although both may tend to achieve the same aim, however, they differ according to definition, function and purpose. The research through the interviews also shows that businesses that have been through an incubator programme are far more likely to succeed in the long term which is why institutions run an incubator centre to support technology entrepreneurs. The centre's incubator programme is designed to accelerate the successful development of young entrepreneurs and their businesses through an array of support resources and services. Launching incubation programme is crucial for technology innovation and exporting tech- based products, the technology incubator can form a catalytic component of a national innovation system.

We have to raise awareness of the importance of innovation and entrepreneurship for economic development and business incubation as an important tool for reaching this goal of contribution of SMEs within the incubators to the economy in the incubation unites in Jordan. This has clearly been demonstrated by this research. Furthermore special programmes and schemes to improve the effectiveness of incubators should be implemented. Development agencies like Development Banks should be directly involved in as a key player in establishing incubators in the Arab World.

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