



Rural Business Incubators and Economic Development

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Issue. Rural business incubators, which came to the forefront of local development policy in the 1980's, nurture emerging businesses. The assumption is that these new businesses, having survived the critical first stage of business development, will in turn contribute to more sustained local economic growth. Many State and local governments support business incubator programs and many areas are considering them as a way to stimulate job growth. But, do these programs foster local business development, particularly in rural areas? If so, what general approach works best?

Context. Rural business incubators are facilities that offer a unique supportive physical environment and business services to nurture start-up firms. Their goal is to improve the survival and growth rates for start-up enterprises. Incubators may be located in a building, a portion of a building, or a group of buildings. They provide physical and logistical services, shared office services, and business consulting services. Ownership of the facilities is fairly evenly spread among universities, 2-year colleges, private nonprofit organizations, local government, and for-profit corporations. The number of incubators nationwide grew nearly tenfold from 1984 to 1991, reaching approximately 450. Incubators have become increasingly popular as a part of a broader rural economic development program, such as a rural enterprise zone. Rural areas have 28 percent of all incubators (as of 1991), with most rural incubators founded since 1987.

There have been no empirical studies on the long-term effectiveness of incubators, but several small case studies suggest that success varies and those incubators designed to address targeted enterprise development objectives, such as supporting start-up electronics firms, have more success creating jobs. This is particularly important for incubators in rural areas because the local economy usually has limited diversity. While a few incubators do house one or more mature firms, there is no evidence that incubators merely induce firms to change location within a region. Research has also affirmed that incubators largely nurture homegrown businesses; most of the incubators' entrepreneurs, prior to establishing their business, had lived for many years in the same area as the incubator.

Incubators should not be perceived as quick fixes for a community's depressed economy. The actual number of jobs created in an incubator will be relatively small because the program is designed more for the long-term economic health of a region than for a shortrun increase in employment or income. The intent is to help several fledgling businesses get started in the hope that eventually some of them will leave the incubator to prosper and grow in the region. Successful firms typically leave the incubator after 1-2 years.

At Stake. While incubators can contribute to a region's longrun economic growth, establishing an incubator in rural locations offers special challenges. Incubators are expensive to develop, typically costing more than \$500,000, and difficult to fund. Very few are self sufficient and many have no realistic plan for achieving self-sufficiency. Most rural facilities find it hard to develop financing for businesses wishing to enter an incubator. Hence, an important precondition for developing incubators is revolving sources of capital. Management assistance can be difficult to provide when a rural area has few business consultants. The relatively small pool of entrepreneurial clientele in rural areas and the limited ability to attract entrepreneurs from other regions, including other rural areas, impedes incubator development.

Alternatives. What success means for a particular business incubator depends on the aim of the developer(s). The general aim of incubator developers is rural economic growth in their region. Business incubators accomplish this goal by increasing the number of ventures that survive the critical early stage of business formation. An incubator also encourages an increase in local business start-ups. While incubators serve as facilitators of funding and business assistance to firms on their premises, this does not preclude firms from independently garnering the necessary knowledge or finances for their needs.

Successful rural business incubators build upon communities' strengths, not their weaknesses. The strengths may include the skill levels of potential employees, a specialty niche created by existing businesses, or the location of the community. Rural communities can improve the success of their incubators by making sure that market analysis is done for potential entry firms. This analysis could identify businesses most likely to succeed. Rather than focusing on the physical structure for the incubator, rural areas might focus on developing a solid support network for new ventures. Developers, in devising and implementing plans for their incubators, must allow for the incubation time needed for a given business and determine what firms are likely to succeed past the incubation stage and would likely then locate within the region. The necessary incubation time will vary according to the type of business and the socioeconomic characteristics of the rural area.

Rural business incubators work best as part of larger economic development strategies, specifically when they are tied into comprehensive support networks for start-up companies including business consultation and financial help for all stages of business growth. Local Small Business Development Centers (sponsored by the U.S. Small Business Administration), which are commonly housed on the campuses of local colleges, often are part of the support networks and lend business assistance. Effective community leadership, such as in building support networks, in tandem with appropriate rural incubator strategies (those designed to best take advantage of the local economic environment) can lead to the successful development of incubators. Rural business incubators will often be included in larger development plans, such as research or industrial parks and enterprise zones.

Funding to establish business incubators or to finance firms within the incubators has come from a multitude of private and public sources, including some Federal agencies (for example, the Small Business Administration, Department of Commerce, Office of Community Services, and Department of Health and Human Services). If correctly designed and managed, incubators often increase the success rates for their fledgling businesses. Businesses that are nurtured in them will usually remain in the community. Nonetheless, incubators should not be operated merely as general subsidy programs for the private sector. Incubator services must be targeted to those needs that are critical to the success of start-up firms and not otherwise provided in an effective manner.

Agenda. A rural development initiative that includes providing Federal assistance to rural communities, businesses, and individuals to improve the quality of rural life and increase employment opportunities in rural areas is part of the Clinton administration's comprehensive economic plan for the Nation. Congressional consideration of the plan has begun.

Information Source. Mark L. Weinberg, "Business Incubators Give New Firms in Rural Areas a Head Start," *Rural Development Perspectives*, 3(1987):6-10.