

*Statement of*

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Chairman Velázquez, Ranking Member Graves and other Members of the Committee, my name is David Monkman, and I am president & CEO of the National Business Incubation Association. Founded in 1985, NBIA is the world's leading organization advancing business incubation and entrepreneurship. Our organization represents nearly 1,900 individual members worldwide – including more than 1,400 in the United States. This group, which includes business incubator managers and developers as well as others interested in the business incubation industry, includes some of the most knowledgeable and experienced professionals in entrepreneurship support. Thank you for the opportunity to appear before you today to share some of their stories to underscore the importance of business incubators as effective tools for assisting entrepreneurs and creating jobs.

Like many incubator managers who work with new and emerging businesses, I am an entrepreneur myself. Because of my experience starting companies, I am drawn to business incubation. Recently I set up an economic development agency for the Government of Pakistan for emerging and small enterprises that is now credited with creating thousands of jobs. I also have personally set up or helped set up 10 private companies. I consider myself a specialist in entrepreneurship and small business development, and I have worked as an advisor for the Asian Development Bank, the European Commission and the U.S. Agency for International Development on projects that were in large part designed to build dynamic, high-growth companies and create jobs.

### **Overview of business incubation**

As the Committee examines the best way to create new jobs to help turn around the struggling U.S. economy, I'm pleased to know that you're considering business incubators – the foremost creator of jobs in our nation – as an attractive option. For 50 years, incubators have been helping entrepreneurs turn their ideas into viable businesses, promoting innovation and creating jobs by providing emerging companies with business support services and resources tailored to young firms to increase their chances of success.

Business incubators nurture the development of entrepreneurial companies, helping them survive and grow during the start-up period, when they are most vulnerable. These programs provide their client companies with business support services and resources tailored to young firms. The most common goals of incubation programs are creating jobs in a community, enhancing a community's entrepreneurial climate, retaining businesses in a community, building or accelerating growth in a local industry, and diversifying local economies.

As you're surely aware, starting a new business isn't an easy task. Most business owners know every detail of their product or service, but many lack all of the skills they need to turn their ideas into successful firms. Business incubation programs are uniquely positioned to help entrepreneurs access resources through the incubator, business community, local colleges and universities, and other business assistance programs to help them develop the business skills they need to grow successful firms that can help turn around struggling economies.

Around the world, entrepreneurs are playing an increasingly important role in transforming economies. Rather than relying solely on efforts to attract existing businesses from other locations, many communities are recognizing the need to help local residents build new businesses from the ground up through business incubators. By focusing on developing a new generation of entrepreneurs – most of whom have ties to the local area – communities are helping to build companies that will create jobs and spark economic growth in their region for years to come.

Business incubation programs throughout the world play an important role in stimulating economic growth in local communities. Because these programs provide needed assistance to young firms at their earliest stages of development – when they're most vulnerable – business incubators increase their chances of success by providing them with a broad range of business assistance.

This business assistance – particularly the high-value-added services required to accelerate the growth and success of new companies – represents the essence of business incubation. In fact, the quality of the business assistance services offered by incubator staff and outside service providers will directly impact the success of the incubator's clients. The range of services offered by incubation programs depends on the type of clients served. But at the root, all services are aimed at strengthening the business knowledge of the clients' management team and sharpening its understanding of the company's market and financing needs.

NBIA has identified three characteristics that distinguish a business incubator:

- 1) The program must have a mission to provide business assistance to early-stage companies.
- 2) It must have staff that delivers and/or coordinates business assistance to client companies.
- 3) It must be designed to lead companies to self-sufficiency. Companies usually stay in an incubation program for two to three years, although biotech firms, which often have a longer research and development cycle, sometimes spend more time in an incubator. After that time, incubator clients graduate and move out of the incubator facility – in many cases into other local facilities that they lease, purchase or build. To operate successful programs, incubator staff must expel clients that don't achieve benchmarks or who fail to thrive or meet other graduation criteria.

### **History of business incubation**

The business incubation industry has experienced rapid growth over the last 30 years, but the first business incubator started more than 50 years ago in New York. The Batavia Industrial Center, which opened its doors in 1959 in an old Massey-Ferguson farm implement manufacturing plant, is widely recognized as the world's first business incubator. When the plant closed, the Mancuso family purchased the 850,000-square-foot facility in hopes of attracting a single tenant to rent the space and to bring new jobs for the nearly 2,000 people who lost their jobs when Massey-Ferguson closed. Joseph Mancuso eventually gave up on that effort and instead decided to divide the building up into smaller spaces for use by small companies. He also provided these firms with accounting help, assisted them with raising capital and provided other business assistance services. And thus, the business incubation industry was born.

By 1980, there were 12 to 15 incubators operating in the United States – all of them in the industrial Northeast, Middle Atlantic or Midwest regions. Since then, the industry has since grown to include more than 1,100 incubation programs in the United States alone and more than 7,000 worldwide.

Business incubation in the United States tends to be tailored to the specific economic development needs of individual communities rather than applied as a bureaucratic solution from above. While some federal funds are available to help organizations build or renovate facilities into new incubators, each community or institution sponsoring an incubator must

develop its own operational plan, mission and goals. This individualization of U.S. incubation programs means that there is wide variation in incubator types, funding methods and quality from one program to the next. In fact, the entrepreneurial nature of the U.S. business incubation industry is marked by the many different types of incubators that have started here.

### **Business incubators as job creators**

With the help of targeted business assistance services, entrepreneurs are better prepared to turn their innovations and business ideas into successful new ventures that have a greater-than-average chance of success. Research conducted by NBIA, the University of Michigan, the Southern Technology Council, and Ohio University has shown that business incubators reduce the risk of business failures. Historically, NBIA member incubators have reported that 87 percent of all firms that have graduated from their incubators are still in business. Data from the U.S. Small Business Administration show that in the general U.S. population, 69 percent of new firms survive at least two years, and half survive five years or more. It is important to note that these figures are not directly comparable, due to differences in survey methodology, time frame, and other factors. However, looking at them side by side does strongly suggest that business incubation reduces the risk of business failure and offers a valuable comparison.

Funded by a \$300,000 grant from the U.S. Department of Commerce Economic Development Administration (EDA), the research project conducted by NBIA, the University of Michigan, the Southern Technology Council, and Ohio University examined the impacts of incubator investments on client firms and their communities. Subsequently published by NBIA as *Business Incubation Works*, the report emanating from this research also revealed that business incubation programs create new jobs for a low subsidy cost and a substantial return on investment. The estimated public subsidy cost per job created was \$1,109.

Other important findings of the study – which enlisted incubator companies, graduates, managers, and stakeholders – show how effective business incubators are:

- Incubator companies experience very health growth. For example, the average annual growth in sales per firm was \$239,535.
- Most incubator graduates provide employee benefits.
- Incubation programs contribute to their client companies' success and expand community entrepreneurial resources.
- Business incubation programs improve local community image.

A 2008 study conducted by consulting firm Grant Thornton for the U.S. EDA told a similar story about the success of business incubation programs as a means of creating jobs. The report, *Construction Grants Program Impact Assessment Report*, found that business incubators are an effective public-private approach that produces new jobs at a low cost to the government. According to the study, for every \$10,000 in EDA funds invested in business incubation programs, an estimated 47 to 69 local jobs are generated. As a result, business incubators create jobs at far less cost than do other EDA investments, such as roads and bridges, industrial parks, commercial buildings, and sewer and water projects. The Grant Thornton study found that incubators provide up to 20 times more jobs than community infrastructure projects (e.g. water and sewer projects) at a federal cost per job of between \$126 and \$144, compared with between \$744 and \$6,972 for other infrastructure projects.

NBIA's 2006 *State of the Business Incubation Industry* report found that North American incubators, on average, served 25 client companies. And these firms reported that their

businesses were going well. NBIA asked respondents to report combined client revenues for both in-house and affiliate clients for the most recent fiscal year. The average figure was more than \$16 million – an impressive tally for firms that are just starting out. Clients of technology incubators, in particular, fared well. In 2006, the average combined revenue of clients at technology incubators was \$23 million per incubation program.

Although business incubation is still a relatively new industry, programs around the world have racked up impressive results that demonstrate the important role incubators play in stimulating economic growth and creating jobs. For example, NBIA estimates that in 2005 alone, North American incubators assisted more than 27,000 start-up companies that provided full-time employment for more than 100,000 workers and generated annual revenue of more than \$17 billion. NBIA also points to research showing that every dollar of public funds devoted to an incubator generates approximately \$30 in local tax revenue.

### **The international experience**

NBIA estimates that there are now more than 7,000 business incubators worldwide. We expect that number will continue to grow as other nations also are looking to business incubators as a way to stimulate economic growth. For example, InfoDev – an arm of the World Bank Group – is actively promoting business incubator development in less developed countries through its Business Incubation Initiative. It currently supports a network of 40 incubators. Also, the United Nations Industrial Development Organization (UNIDO) oversees more than 500 incubator projects in developing and transitioning economies. Both the InfoDev and UNIDO business incubator networks are growing.

In Europe alone, NBIA estimates there are more than 1,800 business incubation programs today. The European Commission provides funding to nearly 160 business incubation programs, referred to as "Business Innovation Centres." In 2008, the EC invested just over \$8,500 for each job created by a BIC. As referenced previously, the cost per job created by business incubators in the United States tends to be much lower.

In the United Kingdom, more than 300 business incubation programs operate today. These programs directly support 12,000 companies; 40,000 additional firms experience indirect benefits from this support. Business incubators in the U.K. are credited with creating more than 50,000 jobs.<sup>1</sup> Figures from ADT, the German incubation association, reveal that Germany currently has approximately 7,500 clients within its approximately 300 incubators. These firms have created about 56,000 jobs. Germany's 9,000 graduate firms also employ 90,000 – not including people hired after these firms graduated from the incubator. Based on statistics from incubation associations in the United Kingdom and Germany, there are more incubation programs per capita in these nations than there are in the United States.

### **Size and scope of domestic investments**

The largest source of federal funding for business incubators comes from the U.S. Department of Commerce Economic Development Administration. EDA's investment policy is designed to establish a foundation for sustainable job growth and the building of durable regional economies throughout the United States. Unfortunately EDA allocates only a fraction of its roughly \$250 million annual budget to business incubation.

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<sup>1</sup> "Business Incubation in Challenging Times", NESTA Policy Briefing, BI/29 (2008).

By contrast, USAID – with a similar economic development mandate, although focused on developing and transitional countries around the world – has an annual budget nearly 10 times that of EDA. Although USAID and EDA may not be directly comparable, it does suggest that federal investments in job creation and economic development feature differently at home.

The dollars EDA does invest in the incubation industry are geared only toward Public Works projects – constructing or renovating facilities for use as business incubators. And EDA typically requires communities to match a 50 percent local match of federal funding on such projects, allowing a lower cost-share only on a case-by-case basis. We believe that in these extraordinary times, the agency shouldn't be reviewing proposals and their match on a case-by-case basis. This will not result in a speedy injection of these funds, and this policy also will fail to benefit the communities that most need stimulus.

While co-locating and clustering businesses is an important ingredient in the business incubation process, it's widely understood that it's the provision of business assistance services that improve business incubator clients' chances of success. And yet, there currently is no federal funding mechanism to support business incubator programming in the United States. As you continue to look at ways to create jobs in America, I urge you to support funding that is truly flexible and can benefit the existing network of U.S. incubators, as well as the development of new incubation programs to create jobs and generate wealth in communities across the country.

Already in this country, we have many long-running best-practice incubation programs that have proven track records and are eminently qualified and willing to expand their services to new entrepreneurial populations, if funding were available. And as communities look for new ways to support local business development during these tough economic times, more and more organizations are considering developing business incubators. We want to ensure that these agencies have the funds they need to develop best practice programs that offer innovative programming to help entrepreneurs succeed. Now – while many out-of-work Americans are starting new companies – is not the time to let these foremost job creators wither away. With clear economic gains possible from high-growth new firms – such as the creation of jobs and new markets – there is a sound rationale for improving the supply of public funds to support business incubators.

To this end, Sen. Sherrod Brown, D-Ohio, has introduced the Business Incubator Promotion Act – the most significant assistance to date to the business incubation industry. Rep. Tim Ryan, D-Ohio, also is investigating similar legislation. The Business Incubator Promotion Act acknowledges the effectiveness of business incubation to job creation and specifically requests that the U.S. Department of Commerce Economic Development Administration fund incubators through eligible activities. If approved, the legislation would:

- Give EDA the authority to provide operating funds to support activities that will help incubators work toward self-sustainability.
- Support and specify EDA funding of programmatic and technical assistance activities for new and expanding incubators (not just bricks and mortar and early-stage operations).
- Specify EDA authority to fund incubator feasibility studies and plans for construction of new or expansion of existing business incubators, as well as the implementation of those studies and plans (acquisition of property, new construction, renovation of existing buildings, etc.).
- Modify the current scales used by the EDA to make it easier for regions to qualify for increased funding (a greater federal share) based on a shorter duration of

unemployment rate (from 24 months to 12 months) and decreased unemployment rate average compared with the national unemployment rate.

- Reduce the non-federal share of project costs to 20 percent in designated areas of "special need."
- Require the Secretary of Commerce to publish criteria used in making awards and specifying certain criteria.

These types of support for our nation's incubation programs are both unprecedented and much needed.

### Policy implications

Like many other Americans, I have faith in the ability of entrepreneurs to jumpstart our nation's sagging economy by generating revenue and creating new jobs. But many times, they need a guiding hand to help them turn their ideas into viable businesses, particularly during times of economic crises. The nation's existing network of business incubation programs – and the many new incubators under development – can assist entrepreneurs in growing new businesses that can help put many Americans back to work. But while business incubation programs have a proven track record of helping new businesses succeed, more can be done to ensure that these economic development tools are most effective. To that end, NBIA has developed a set of policy recommendations for you to consider as Congress continues to investigate ways to stimulate job creation in the United States.

Specific business incubation policy recommendations:

- **Widen the scope of federal funding programs to support incubators.** Currently, federal funding for incubation programs focuses almost exclusively on bricks and mortar – the facilities themselves. But successful incubators provide much more than shared space. I urge you to consider ways to also provide operational funding for incubators committed to developing innovative programming and following industry best practices, which will allow them to provide continued and expanded services to high-growth companies. This way, even more entrepreneurs can get the help they need to launch successful new businesses – businesses that create jobs, revitalize neighborhoods and commercialize new technologies, thus strengthening local, regional and even national economies. Also, although distressed communities perhaps need the most assistance in this area, I urge you to not restrict incubation funding to those areas. Arguably, given the nation's economic crisis, most regions of the country could be considered distressed and in need of stimulus dollars today.
- **Ensure that incubators follow best practices.** I'm asking you today to consider ways to provide additional funding to help incubators create new jobs, but those funds should not come without restrictions and responsibility. NBIA research has consistently shown that incubation programs that adhere to the principles and best practices of successful business incubation generally outperform those that do not. To ensure that incubators are making the best use of the public funds they receive, I believe that incubation programs receiving federal funding should be required to implement industry best practices and serve as dynamic models of sustainable, efficient business operations – much like they expect their clients to do. Also, NBIA has found that encouraging networking and collaboration among incubators plays a role in their success, so we

support building the capacity of state incubation associations and developing networks of business service providers that may be used by members within each state.

- **Standardized outcome measures across the industry.** To assess whether incubators that receive federal dollars are reaching their goals, I ask that you consider implementing ways to monitor return on investment by requiring programs that receive public support to collect the data about their program, clients and graduates on a regular basis. The amount of taxes paid by client firms and their employees, the number of jobs created by incubator clients and graduates, and other similar data points could be used as measures of the return on public investment created by incubation programs.

Complementary policy recommendations:

- Improve state, regional and national support for seed, angel and venture capital funding
- Consider spending and taxing policies that help foster innovation and reduce costs for new high-growth businesses
- Encourage recipients of federal research and contracting dollars to form collaborative agreements with business incubation programs that operate within their region
- Commit outreach funds to help first-time entrepreneurs prepare a competitive proposals for SBIR/STTR funding
- Ensure that appropriate services and space are available for incubator graduates and other second-stage companies in all communities where incubation programs operate

As you move forward with your discussion of business incubators and ways they can be used to stimulate job creation, NBIA – as voice of the business incubation industry – can assist the federal government by helping to:

- Determine how best to leverage existing best-practice incubators
- Create programs aimed at developing new best-practice incubators
- Establish criteria for funding proposals and metrics for evaluation
- Monitor implementation efforts
- Develop programs to educate incubator managers and disseminate best practices
- Encourage incubators to support other Administration goals, such as working with clean technology and alternative energy start-ups
- Obtain congressional support for these efforts by mobilizing our members and supporters

NBIA is prepared to convene a study group comprising the nation's best minds in incubation to work with appropriate members of Congress and the Administration. The group will be prepared to develop immediate, short-term and long-term transformative measures to inspire American ingenuity, build the nation's innovation capacity and continue our legacy of entrepreneurialism. Americans are looking to entrepreneurial businesses to rebuild our economy; business incubation can help fulfill their expectations, instilling hope across America and rebuilding confidence in our communities.



## **Summary**

In closure, I would like to reiterate the key elements of my testimony today. Business incubators play a vital role in job creation, economic recovery and economic development during this time of challenge and opportunity. Speaking for NBIA and our nearly 1,900 members engaged in supporting the development of new high-growth businesses, I believe it is critical to recognize business incubators for their ability to commercialize new technologies, help create new jobs and ensure the United States remains the leader in global competitiveness. Federal funding support should be extended to help incubator managers leverage the resources already provided at local, municipal, county and state levels. Business incubation is a proven model for economic development and enterprise development and is widely practiced around the world. European states invest more than we do in business incubation, despite our early lead in establishing the industry. Europe now has more – and better-funded – incubators than we do. I believe that any stimulus or job creation legislation before you should take operational funds for business incubation into account. I thank you for your attention to these issues and hope the committee will consider and incorporate them into your deliberations as you address job creation and economic recovery. I would be happy to answer any questions now or in the future.

## Appendix A: Resources

- Adkins, Dinah. *A Brief History of Business Incubation in the United States*. NBIA Publications, 2002.
- Boyd, Kathleen. *Developing a Business Incubation Program: Insights and Advice for Communities*. NBIA Publications, 2006.
- Cammarata, Kathleen. *Self-Evaluation Workbook for Business incubators*. NBIA Publications, 2003.
- Erlewine, Meredith and Ellen Gerl (editors). *A Comprehensive Guide to Business Incubation, Completely Revised 2nd Edition*. NBIA Publications, 2004.
- Erlewine, Meredith. *Measuring Your Business Incubator's Economic Impact: A Toolkit*. NBIA Publications, 2007. (Also available online at [www.nbia.org/toolkit](http://www.nbia.org/toolkit).)
- Grant Thornton (in conjunction with the U.S. Department of Commerce Economic Development Administration). *Construction Grants Program Impact Assessment Report*. Sept. 30, 2008. (Available for download at [www.eda.gov/PDF/EDAConsImpactStudyVolume1FINAL.pdf](http://www.eda.gov/PDF/EDAConsImpactStudyVolume1FINAL.pdf).)
- Knopp, Linda. *2006 State of the Business Incubation Industry*. NBIA Publications, 2007.
- University of Michigan, National Business Incubation Association, Ohio University, and Southern Technology Council. *Business Incubation Works: The Results of the Impact of Incubator Investments Study*. NBIA Publications: 1997.
- Wolfe, Chuck, Dinah Adkins and Hugh Sherman. *Best Practices in Action: Guidelines for Implementing First-Class Business Incubation Programs*. NBIA Publications, 2001. (Please note: A revised and updated version of this publication is in development now, slated for publishing in early 2010.)

## **Appendix B: Principles and Best Practices of Successful Business Incubation**

In 1996, NBIA's board of directors developed a set of industry guidelines to help incubator managers better serve their clients. Since that time, NBIA research has consistently shown that incubation programs that adhere to the principles and best practices of successful business incubation generally outperform those that do not. The following industry guidelines are replicable and broadly applicable to incubation programs around the world, regardless of their focus or mission.

Two principles characterize effective business incubation:

1. The incubator aspires to have a positive impact on its community's economic health by maximizing the success of emerging companies.
2. The incubator itself is a dynamic model of a sustainable, efficient business operation.

Model business incubation programs are distinguished by a commitment to incorporate industry best practices. Management and boards of incubators should strive to:

- Commit to the two core principles of business incubation
- Obtain consensus on a mission that defines the incubator's role in the community and develop a strategic plan containing quantifiable objectives to achieve the program mission
- Structure for financial sustainability by developing and implementing a realistic business plan
- Recruit and appropriately compensate management capable of achieving the mission of the incubator and having the ability to help companies grow
- Build an effective board of directors committed to the incubator's mission and to maximizing management's role in developing successful companies
- Prioritize management time to place the greatest emphasis on client assistance, including proactive advising and guidance that results in company success and wealth creation
- Develop an incubator facility, resources, methods and tools that contribute to the effective delivery of business assistance to client firms and that address the developmental needs of each company
- Seek to integrate the incubator program and activities into the fabric of the community and its broader economic development goals and strategies
- Develop stakeholder support, including a resource network, that helps the incubation program's client companies and supports the incubator's mission and operations
- Maintain a management information system and collect statistics and other information necessary for ongoing program evaluation, thus improving a program's effectiveness and allowing it to evolve with the needs of the clients

### **Appendix C: Detailed Findings From Construction Grants Program Impact Assessment Report**

Grant Thornton conducted a study for the U.S. Department of Commerce Economic Development Administration examining the economic impacts and federal costs of EDA construction program investments. In that study, researchers found that business incubators are the most effective means of creating jobs – more effective than roads and bridges, industrial parks, commercial buildings, and sewer and water projects. The study was announced in early 2009 in an EDA newsletter. Below are some detailed findings from the report. The entire report is available for download at [www.eda.gov/PDF/EDAConsImpactStudyVolume1FINAL.pdf](http://www.eda.gov/PDF/EDAConsImpactStudyVolume1FINAL.pdf).

- In a recurring theme throughout the study, the authors note that “EDA’s strategic focus on innovation and entrepreneurship makes sense, in that investments in business incubators generate significantly greater impacts in the communities in which they are made than do other project types.”
- According to the study, EDA investments, on average, produce between 2.2 and 5.0 jobs per \$10,000 in federal spending, for a federal cost per job of between \$2,001 and \$4,611.
- The results of the investments vary greatly, depending on the type of project (see table below). Business incubators produce the greatest number of jobs per \$10,000 in EDA investment (between 46.3 and 69.4), while community infrastructure projects (e.g., sewer and water projects) create the least number of jobs (between 1.5 and 3.4 per \$10,000 in federal investment).
- As a result, business incubators create jobs at far less cost than do other EDA investments. Incubators have a federal cost per job of between \$144 and \$216, compared with \$744-\$1,008 for commercial structures, \$1,291-\$2,293 for roads and other transportation projects, \$1,377-\$1,999 for industrial park infrastructure, and \$2,920-\$6,972 for community infrastructure.
- The report notes that, by dollar invested and by number of projects funded, business incubation programs have historically been the least well-funded of EDA’s public infrastructure projects.

<b>Local Jobs Generated Per \$10,000 EDA Investment and Federal Cost Per Job Project type</b>	<b>Estimated local jobs created (per \$10,000 EDA investment)</b>	<b>Federal cost per job</b>
Business incubators	46.3-69.4	\$144-\$216
Commercial structures	9.6-13.4	\$744-\$1,008
Roads & other transportation	4.4-7.8	\$1,291-\$2,293
Industrial park infrastructure	5.0-7.3	\$1,377-\$1,999
Community infrastructure	1.5-3.4	\$2,920-\$6,872

Source: “Construction Grants Program Impact Assessment Report,” prepared by Grant Thornton for the U.S. Department of Commerce Economic Development Administration and announced in a January 2009 EDA newsletter.