Vol 9, No 2, 2017 ISSN: 1309-8047 (Online)

START-UP AND ESTABLISHED ORGANISATIONS' REQUIREMENTS FROM UNIVERSITY BUSINESS INCUBATORS

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─Abstract ─

In South Africa, small organisations contribute to the sustainability and growth of the economy through stimulating entrepreneurial activity, job creation, poverty alleviation and the general improvement of living standards. However, these small organisations face various challenges relating to inadequate capital, increasing competition, legislations and market expansions. University business incubators (UBIs), which have proven to be successful worldwide, are organisations that have been developed to support small organisations to overcome the challenges they face during their start-up and growth phases, when they are most vulnerable to business failure. The goal of UBIs is to offer incubation programmes, which include a variety of services ranging from physical facilities, general business services, management services, networking and professional services, financial consulting services and university services to support both start-up and established organisations. The purpose of this study was to determine the difference between start-up and established organisations' service offering requirements from UBIs in order to tailor the service offerings of UBIs. A descriptive research design was followed, whereby a non-probability judgment sample of 108 small service organisations (SSOs) situated in the Vaal Triangle region of South Africa was taken. A structured self-administered questionnaire, containing the various UBI service offerings, was distributed to the owners or managers of the SSOs. The statistical analysis of the collected data included descriptive statistics and a two independent-samples t-test. The findings of this study suggest that while there is no statistically significant difference between start-up and established organisations' physical facilities, general business service, networking and professional service, financial consulting service and university service

Vol 9, No 2, 2017 ISSN: 1309-8047 (Online)

requirements from UBIs, statistically significant differences were found concerning management service requirements. As such, UBIs should tailor their service offerings and develop unique marketing strategies to target start-up and established organisations.

Key Words: University business incubators, small organisations, start-up organisations, established organisations, services

JEL Classification: M, M3, M31

1. INTRODUCTION AND BACKGROUND

South Africa is a developing country that is currently facing multiple challenges largely relating to employment and income distribution (Cant & Wiid, 2013:707). The current unemployment rate increased within the first quarter of 2017 to 27,7 percent from 26,5 percent in 2016 and the youth unemployment rate is standing at 32,4 percent (Stats SA, 2017:9). Small, medium and micro enterprises (SMMEs) are viewed as a solution to these high unemployment rates in South Africa (Rector, Fatoki & Oni, 2016:67; Olawale & Garwe, 2010:729). SMMEs, together with entrepreneurship, are encouraged to boost job creation, black economic empowerment, economic growth, community development, economic vitality and the diversification of the national economy (Botha & Esterhuyzen, 2012:12101; Smit & Watkins, 2012:6325; Mutambi, Byaruhanga, Trojer & Buhwezi, 2010:190; Ndabeni, 2008:81). More specifically, Van Vuuren and Groenewald (2007:269) emphasise that small organisations are particularly vital in stimulating economic activity, job creation, poverty alleviation and the general improvement of living standards internationally and in South Africa. However, despite the various contributions that small organisations and SMMEs bring to the economy, they are faced with many difficulties, especially in their early start-up period when they are most vulnerable (Mutambi et al., 2010:190). The challenges facing small organisations in South Africa are different to those experienced by small organisations in developed countries (Okpara & Kabongo, 2009:9). As a result of these challenges, between 70 and 80 percent of SMMEs in South Africa fail to survive and continue with their operations (Ladzani, Nieuwenhuizen & Nhlapo, 2011:1461). Neneh and Van Zyl (2012:8328) emphasise that the SMMEs failure rate is concerning as it is one of the highest rates experienced worldwide.

SMMEs often overlook essential changes taking place as they are confronted with multiple obstacles (Retief, 2011:14). Some of the major issues SMMEs struggle with are an unfavourable legal environment, lack of access to international

Vol 9, No 2, 2017 ISSN: 1309-8047 (Online)

markets, finance and credit, shortage of multiple organisational skills and access to information, equipment and technology, shortage of affordable business premises, and an ineffective structure to support services (Swart, 2011:10; Abor & Quartey, 2010:224). Van Eeden, Viviers and Venter (2003:15) emphasise that there are numerous factors affecting the constraints SMMEs experience concerning finance and credit. These factors include, amongst others, inadequate capital or difficulties in obtaining credit, inaccurate capital estimations and deficient knowledge of bookkeeping, high start-up costs, high operating expenses, and insufficient profits. Luiz (2002:3) adds that without sufficient capital, SMMEs also have issues with investing in assets, such as raw materials, equipment, consumer credit and finished products. Ladzani et al. (2011:1463) stress that poor management skills are evident if SMMEs fail within the start-up phase. The shortage of managerial skills leads to a lack in management expertise (Abor & Quartey, 2010:224). According to Van Eeden et al. (2003:15), management issues avoiding SMME growth entails a shortage of training, an inability to grow, unrealistic self-evaluations and incorrect views to management. SMMEs struggle to conquer the problems on their own (Ladzani, 2012:43). In order to overcome some of the issues relating to SMMEs growth and survival, the public and private sectors have developed institutions to offer support or assistance services to these SMMEs.

Business incubators have been recognised worldwide to reduce the failure rate of small organisations and SMMEs by assisting these organisations to overcome the challenges during their most vulnerable start-up and growth phases (Raheem & Akhuemonkhan, 2014:73; Al-Maburaki & Busler, 2010:1; Buys & Mbewana, 2007:357). Bøllingtoft and Ulhøi (2005:269) explain that business incubators provide assistance by offering start-up organisations valuable resources, services and assistance by establishing a cultivating environment for these organisations to operate in. More specifically, business incubators provide a variety of services to the incubatees, which include rental space, shared office and communication services like access to a telephone and photocopier, business related services and facilities and equipment services such as conference rooms and computers (Kuratko & Hodgetts, 2007:266). Moore, Petty, Palich and Longenecker (2008:491) add that business incubators also offer incubatees additional services relating to credibility, management assistance, links to accounting, legal and professional services, improved access to financial resources, networking and training. In line with these basic services that business incubators provide,

Vol 9, No 2, 2017 ISSN: 1309-8047 (Online)

Kuratko and Hodgetts (2007:264) highlight that various types of business incubators exist.

As a type of business incubator, UBIs are subsidised formally by a university and aim to cultivate newly established small organisations (Todorovic & Suntornpithug, 2008:390). Moreover, UBIs are concentrated on transforming research and development findings into new products and/or technologies by being principally concerned with development as an end in itself (Bøllingtoft & Ulhøi, 2005:271). In addition to the general business incubator services, UBIs also provide university-related services such as faculty consultants, student employees, enhancement of reputation, library services, equipment, mainframe computers, research and development activity, technology transfer programmes, employee education and training, and other social activities (Grimaldi & Grandi, 2005:112). It should be noted that even though the primary concern of business incubators and UBIs is to provide these services to start-up organisations, they are not limited to start-up organisations whereby established organisations may also benefit from the programmes and services provided (Bruneel, Ratinho, Clarysse & Groen, 2012:113; Lin, Wood and Lu, 2012:2093). Al-Mubaraki and Busler (2010:3) agree, stating that the economic development purposes of business incubators and UBIs are also to provide services to established small organisations to assist in either stabilising or expanding the organisation.

2. PROBLEM STATEMENT

Carnes et al. (2016:7) highlight that small organisations face various advantages and challenges over the course of the business life cycle phases, which indicates that in order for the organisation to be sustainable, managers should examine the resources and capabilities of the organisation during the various business life cycle phases. In relation to the business life cycle, organisations in their pre-start-up and start-up phases are often referred to as young or nascent organisations, whereas organisations in phases further than the start-up phase are referred to as mature or established organisations (Van Stel, Storey and Thurik, 2007:172; Kuhn & Marsick, 2005:32; Reynolds, Bosma, Autio, Hunt, De Bono, Servais, Lopez-Garcia and Chin, 2005:210). Start-up organisations experience high levels of uncertainty and are limited by the lack of development in the early phase of the organisation, for example, their reputation has not yet been established, including their consumer or credit bases. In comparison, established organisations return higher levels of profit, are able to cover their expenses, have a developed consumer base and are capable of product or service diversification (Fort,

Vol 9, No 2, 2017 ISSN: 1309-8047 (Online)

Haltiwanger, Jarmin & Miranda, 2013:524). According to Carnes, Chirico, Hitt and Pisano (2016:4), start-up organisations experience greater opportunities but face more competition in their market, whereas established organisations have formal structures and routines but lack resources. Moreover, established organisations have fewer opportunities and thus have obstacles to overcome in order to stay ahead of competitors in the market.

Maital, Ravid, Seshadri and Dumanis (2008:2) stress that a successful business incubator should be able to coordinate the insights of a balanced fit between the business incubator service offering, incubatee needs, the business environment and the national and local culture as a one-size-fits-all service offering may not succeed across different industries, regions and countries. Colbert, Adkins,Wolfe and LaPan (2010:72) agree, highlighting that incubatee needs can differ based on various factors, such as the phase of the organisation development or industry sector. Therefore, it is of utmost importance that UBI managers determine the specific needs of incubatees in order to ensure that the business incubator service offering is aligned with the needs required.

3. PURPOSE AND OBJECTIVES

The primary objective of this study was to determine the difference between start-up and established organisations' service offering requirements from UBIs in order to tailor the service offerings of UBIs.

4. RESEARCH METHODOLOGY

This study followed a descriptive research design in order to determine the difference between start-up and established organisations' service offering requirements from UBIs in order to tailor the service offerings of UBIs.The target population for this study was defined as any individual currently owning or managing a SSO in South Africa. The sampling frame comprised a list of SSOs situated in the Vaal Triangle region of South Africa, as obtained from the Vaal Triangle Info Business Directory (Vaal Triangle Info, 2005). The Vaal Triangle region is home to nearly a million people and within the latter half of the twentieth century has become known as the industrial hub of South Africa (Vaal Triangle Info, 2005). From a list, non-probability judgement sampling was applied to select 125 SSOs from the service industry sectors, namely auto, estate and property management, health care and beauty, hospitality and accommodation, and professional service industry sectors. This sample size is in the range of other studies of a similar nature, such as Abduh, D'Souza, Quazi and

Vol 9, No 2, 2017 ISSN: 1309-8047 (Online)

Burley (2007:79) (sample size of 129) and Meru and Struwig (2011:112) (sample size of 124). An attempt was made to split the sample size representatively across the different service industry sectors, translating to 25 SSOs per industry sector.

A scale, as guided by the literature, was developed in order to determine whether there is a difference between start-up and established organisations' service offering requirements from UBIs. A structured self-administered questionnaire was utilised, which included a cover containing the necessary information pertaining to the study, confidentiality, permission and courtesy. The first section of the questionnaire was designated to elicit demographic information from the participants, which included two screening questions, namely one to ascertain that the participant met the necessary company position and the other question to ensure that the SMME had the relevant number of employees to meet the company size restrictions for a small organisation. The subsequent section consisted of the 41-item scale measuring start-up and established organisations' service offering requirements from UBIs. The scale included six constructs, namely physical facilities (eight items), general business services (seven items), management services (five items), networking and professional services (seven items), financial consulting services (nine items), and university services (five items). The participants' responses were measured on a six-point Likert scale ranging from very unimportant (1) and very important (6).

A convenience sample of 30 owners/managers of SSOs was selected to conduct a pilot study in order to determine the reliability of the scale. These SSOs were not situated in the region selected for the main study and thus did not form part of the main sample. A Cronbach alpha value of 0.941 was returned for the overall scale consisting of 41 items. The Cronbach alpha values produced per construct ranged from 0.651 to 0.889, exceeding the acceptable level of 0.600 (Malhotra, 2010:319), which is indicative of internal consistency reliability as each of the constructs comprised fewer than 10 items. The average inter-item correlation value returned for the overall scale was 0.274, which was between the suggested values of 0.15 and 0.50 (Clark & Watson, 1995:316). Following on the pilot study, the questionnaire was subsequent to ethical clearance (Ethics Clearance Number: ECONIT-ECON-2014-020), which was obtained from the Ethical Committee of the North-West University (Vaal Campus).

The researcher followed an unsolicited calling approach whereby the owners/managers of the SSOs were personally visited to request permission for the questionnaire to be completed. After permission had been solicited in person,

Vol 9, No 2, 2017 ISSN: 1309-8047 (Online)

the questionnaire was hand-delivered to the participants and recollected within two weeks. The captured data was analysed using Statistical Package for Social Sciences (SPSS), version 22.

5. RESULTS

Of the 125 questionnaires distributed, 108 questionnaires were returned completed and deemed suitable for use, which translates into a response rate of 86 percent. The participants of start-up organisations, younger than five years, amounted to 40 questionnaires, whereas the participants of established organisations, over six years old, amounted to 68 questionnaires. The sample was relatively split representatively across the five industry sectors. The demographic information of the sample's participants is presented in Table 1.

Table 1: Sample description

		Frequency (percentage)
Service industry sector	Auto	21 (19.4)
	Estate agents and property management	21 (19.4)
	Health care and beauty	22 (20.4)
	Hospitality and accommodation	20 (18.5)
	Professional	24 (22.2)
Gender	Male	41 (38)
	Female	67 (62)
Position in organisation	Owner	54 (50)
	Manager	54 (50)
Organisations' age	Younger than 5 years	40 (37)
	Over 6 years old	68 (63)
Number of employees	0 – 19 employees	96 (88.9)
	20 – 50 employees	12 (11.1)

In order to ensure reliability and validity of the research scale, the Cronbach alpha value and inter-item correlations were employed. The Cronbach alpha value retured for the entire scale consisting of 41-items was 0.928, exceeding the recommended level of 0.600 (Malhotra, 2010:319). The reliability coefficients for the constructs were all above the recommended range of 0.600, with *physical facilities* at $\alpha = 0.695$, *general business services* at $\alpha = 0.688$, *management services* at $\alpha = 0.811$, *networking and professional services* at $\alpha = 0.832$, *financial consulting services* at $\alpha = 0.891$, and *university services* at $\alpha = 0.813$. The inter-

Vol 9, No 2, 2017 ISSN: 1309-8047 (Online)

item correlation value for the 41-item scale was 0.243, with the constructs values ranging between 0.229 and 0.471. The inter-item correlation values are within the recommended range of 0.15 and 0.50 (Clark & Watson, 1995:316), which suggests convergent and discriminant validity.

Two-independent-samples t-tests were utilised to determine whether there was a difference between start-up and established SSOs perceived importance of UBI service requirements. The significance level was set at the conventional level of $p < 0.05$. Table 2 reports on the means, standard deviations, t-statistics and p-values.

Table 2: Start-up and established SSOs service offering requirements

	Start-up SSOs		Established SSOs			
Constructs	**Mean N = 40**	**Std. Dev. N = 40**	**Mean N = 68**	**Std. Dev. N = 68**	**t-value**	**p-value**
Physical facilities	4.566	0.826	4.331	0.787	1.470	0.145
General business services	4.661	0.905	4.296	0.998	1.896	0.061
Management services	4.925	0.853	4.253	1.136	3.239	0.002*
Networking and professional services	4.771	0.848	4.389	1.010	1.894	0.061
Financial consulting services	4.164	0.859	3.824	1.257	1.516	0.133
University services	3.695	1.135	3.235	1.245	1.914	0.058

* Statistically significant at $p < 0.05$

It is evident from Table 2 that there were no statistically significant differences found between start-up and established SSOs service requirements from UBI based on physical facilities, general business services, networking and professional business services, financial consulting services and university services. However, statistically significant differences were found relating to management services, whereby the start-up SSOs considered these services as slightly more important than the established SSOs.

6. DISCUSSION

The purpose of this study was to determine whether there is a difference between start-up and established organisations' service offering requirements from UBIs. Traditionally, UBIs have been known to focus most of their attention and marketing strategies on small start-up organisations as it is perceived that these organisations have difficulties to overcome, specifically relating to finance, reputation, development and increasing competition, amongst others. Much less

Vol 9, No 2, 2017 ISSN: 1309-8047 (Online)

attention has been given to the nurturing of small established organisations as it is assumed that these organisations have developed formal structures and routines, sound financial bases, reputable customer and credit bases and they are able to cover their expenses. However, small established organisations have fewer opportunities for growth, which results in them having to conquer multiple obstacles in order to stay abreast of competitors within the market.

The results of this study indicated that start-up SSOs perceive management services as more important than established SSOs. However, start-up and established SSOs were in agreement with the UBIs service offerings for physical facilities, general business services, networking and professional business services, financial consulting services and university services offerings. Given that only a slight difference was noted on one of the six UBI service offerings, UBIs should concentrate their marketing strategies on delivering the required physical facilities, general business services, management services, networking and professional services, financial consulting services and university services to both start-up and established organisations as all of these services were perceived as important to the owners or managers of the SSOs. This is in line with a similar study conducted by Grigorian, Ratinho and Harms (2010:11) who found that incubated and non-incubated companies need the services offered by business incubators. The primary goal of business incubators and UBIs is to provide support to start-up small organisations when they are most vulnerable to risk and failure (Theodorakopoulos, Kakabadse & McGowan, 2014:1). This suggests that in order for UBIs to fulfil their primary purpose, a great deal of their marketing strategies should be focused on small start-up organisations. However, Erlewine and Gerl (2004:199) suggest that UBIs should not focus on entering small established organisations into incubation programmes, but rather allow these organisations access to the specialised services, such as marketing or accounting services.

7. CONCLUSIONS AND MANAGERIAL IMPLICATIONS

Traditionally, UBIs were seen to focus their attention primarily on start-up organisations that were seen to be vulnerable to business failure. However, owners of established organisations often lack the necessary skills to operate an organisation, or to keep an organisation in existence. As such, UBIs should continue supporting start-up organisations, but also extend their service offering to established organisations.

Vol 9, No 2, 2017 ISSN: 1309-8047 (Online)

As managerial implications for UBIs, management can focus their marketing strategies on the same target market as both start-up and established SSOs perceived the services as important. In order for UBI management to target these markets, they should ensure that their mission statements, goals and objectives are in line with the UBI service offering needs identified. A one-size-fits-all service offering may not be suitable for all the small organisations and as such, UBIs' management should follow an approach whereby flexibility of service offerings is allowed. However, the UBIs management should ensure that through their marketing strategies, both start-up and established organisations are well aware and informed of the entire range of UBI service offerings so that they can tailor the offerings to suit their specific needs at the phase of the business life cycle they are experiencing.

8. LIMITATIONS AND OPPORTUNITIES FOR FUTURE RESEARCH

Various limitations are found within this study, which may be transformed into opportunities for future research. First, the business life cycle was used to guide the separation between start-up and established SSOs need requirements from UBIs, whereby it may be interesting to examine small organisations need requirements from UBIs at each phase of the business life cycle. Secondly, the study was limited to the service industry with specific reference to the Vaal Triangle region. Further research may be applied to other industries and other regions within South Africa.

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Vol 9, No 2, 2017 ISSN: 1309-8047 (Online)

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