Business Incubation in Australia:
Policies, Practices and Outcomes

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Abstract

This paper provides a brief overview of the development of business incubation across Australia. The first incubators appeared in the country in the early 1980s, funded by state and territory governments. This was shortly followed by an extensive program of support from the federal government, which led to a rapid expansion from 49 incubators in 1996 to almost one hundred in 2005.

Australian incubation has a number of distinctive characteristics. Most have usually been initiated and subsequently managed by a local municipality, regional economic development organisation or business group, with support from government. Almost all incubators operate as not-for-profit ventures. Government assistance is usually directed towards the establishment of centres, rather than supporting their on-going operations.

The most common form are either stand-alone models, or else ones embedded with other small business support centres; technology-based incubators represent a much smaller proportion of the overall incubator population, and there is a relatively low level of involvement by universities and the research sector.

Australian incubators are, in the main, focused on providing support to the general small business community and nascent entrepreneurs, rather than on commercialising technology from research bodies. The emphasis has therefore been on providing affordable, flexible office space for tenants; access to shared resources; business advice and help; and links to professional and commercial networks, rather than commercialisation through technology transfer and capital inflows.

Key words: Australia, economic development, business incubator, Business Enterprise Centre

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**Introduction**

Like many other developed economies, policy makers and business development advocates in Australia first began to take notice of the business incubator concept in the early 1980s. Encouraged by the early successes of this new tool in enterprise development, incubation received strong levels of support and interest from government and the business community. By 2005, there were almost one hundred incubators operating across the country, in a variety of different formats and business models. More recently, however, incubation has begun to focus on a number of challenges that lie ahead of it. The number of operating incubators has declined slightly and, as in a number of other nations, the sector has to face the challenge of making itself financially self-sustainable.

This article provides a brief overview of development in Australian business incubation over the last quarter of a century. It begins by providing readers with some background on the relevant economic and governmental structures operating in Australia, and gives a brief history of the sector. The paper then analyses the current size and state of the incubator community, looks at the level of research into the field, and concludes by identifying some of the challenges which it faces today.

**The Australian Business Context**

In analysing the history and development of Australian incubation, it is important to bear in mind a number of important country-specific features. Each has had an impact on the development, funding and support of business programmes, including those focused on incubation.

As is the case in most OECD nations, Australia has a large number of small-to-medium sized enterprises (SMEs), and a high level of business entries and exits each year. Data from the Australian Bureau of Statistics (2007) indicates that in 2007 there were just over 2 million trading enterprises, of which 1.7 million (approximately 84%) were micro-enterprises and 300,000 (or 15%) were classified as small-to-medium sized. In that same year, some 330,000 new businesses commenced trading, whilst another 285,000 firms exited or ceased to operate (ABS 2007).

A certain level of firm turnover or “churn” is to be expected in any effective market
economy (Schumpeter 1934). There are often gains for the economy as more efficient surviving firms, providing better services, displace their less effective competitors. However, analysis of the turnover phenomenon in Australia has repeatedly indicated that the risk of business cessation is highest amongst young firms, newly-formed enterprises, and those with very small staff numbers (Bickerdyke, Lattimore and Madge 2000: xviii, 19; ABS 2007). Whereas the overall rate of business exit in Australia appears to be in the vicinity of 8-10% per annum, research by the Organisation for Economic Co-operation and Development (OECD 1999) suggests the cessation rate for incubator tenants is significantly lower. Such figures tend to support the argument that incubation can provide a useful service within the Australian SME context.

In addition to its business demography, an important issue to note is that the Commonwealth of Australia is a federation consisting of six states and two territories. Responsibility for economic development and business support has been largely the traditional province of state or territory governments, although large-scale national infrastructure developments, such as telecommunications and energy markets, have gradually come to fall within the scope of the federal (Commonwealth) government. Nevertheless, most funding for business development and small firm assistance programs has usually been provided by the state and territory governments and their agencies. As federal-state relations have changed, the federal government has become increasingly involved in funding economic programmes and developing policies for the small business sector. In recent years, for instance, various federal governments have funded initiatives such as a “Building Entrepreneurship in Small Business” program through incubators; Small Business Field Officers to facilitate mentoring, skills development and advisory services to small businesses; a Small Business telephone helpline; and a Small Business Online Program (Yeun 2007; AusIndustry n.d. 1; AusIndustry n.d. 2).

Another distinctive characteristic of the business development sector has been the emergence of free (as opposed to fee-paying) government-sponsored business advisory services across Australia. Beginning in 1987, most state and territory governments began to fund support organisations, most commonly known as Business Enterprise Centres (BECs), with a mission of providing assistance to new and existing small firms. The Centres were responsible for providing free or subsidised help to entrepreneurs seeking to start new businesses, assisting firms seeking to grow or improve their operations, and to work alongside small enterprises in distress. Such help took a variety of forms, including direct one-to-one advice, help with business planning, management skills development, training, coaching, mentoring and access to financiers.
A final notable feature is that forms of assistance to entrepreneurs and the small business sector has traditionally varied from one time period to the next: fashions and trends in how to support new and growing firms have often changed. Governments and policymakers have often experimented with one or another policy tool to foster the sector, and then, after a few years, moved on to focus instead on another tool. In the early 1990s, for example, benchmarking was often seen as a critical ingredient to helping firms grow; however, by the mid-1990s this had been replaced by an emphasis on other techniques, such as the adoption of quality assurance standards. Australian governments have generally been unwilling to indefinitely fund programs on an ongoing basis, especially if they cannot demonstrate their effectiveness.

The Evolution of Australian Incubation

Business incubators began to first emerge in Australia in the early 1980s, when a number of state governments began to initially sponsor such developments within their own jurisdictions. Early programmes emerged in the states of Western Australia, New South Wales and Queensland, as well as in the Australian Capital Territory. By 1989 incubators were operational in almost all the states (Bhabra-Remedios and Cornelius 2003). Increasing interest in the concept, and the development of some successful incubators during this time, led to federal government involvement beginning in 1991 (ANZABI 2004).

The development of Australian incubators was typically fostered by local groups in a distinct geographical region or community, working with the support and encouragement of federal government. Most projects were usually initiated by a local municipality, regional economic development organisation (such as a Chamber of Commerce or industry association), a community group, or – more typically – a coalition of these bodies. Once established, oversight and responsibility of the incubator was often vested in a broad-based management committee with representatives from most, if not all, of these groups. An important part of feasibility analysis therefore typically included the identification of not only potential client incubator tenants, but also stakeholder groups which could help manage the incubator (BIIA 2009).

The variety of incubators that subsequently emerged adopted a number of different forms. Many incubators were stand-alone generic enterprises, open to any interested firm and managed by an independent voluntary body. However, a substantial number adopted an ‘embedded incubator’ model, in which they were co-located with local small business advisory centres, such as BECs.
Given that BECs are themselves structured as not-for-profit entities, and that their *raison d’etre* has been to provide advice and support to new firms, there has always been a high degree of synergy between the two forms of business support. Between them, stand-alone and embedded incubators represent the largest proportion of Australian incubators.

A smaller, but still significant, group of incubators were the technology-focused centres. Technology incubators first began to develop a significant role in 1999, when the federal government announced the establishment of some ten centres under a specialised ‘Building on Information Technology Strengths’ (BITS) program (Allen Consulting Group 2003; BIIA 2009).

As a result of these initiatives, the number of incubators across the country grew substantially throughout the 1990s and 2000s. In 1996, for example, there were some 49 incubators in Australia; by 2004 there were almost one hundred (ANZABI 2004: 6, 10).

The growing number of incubators also led to a need for better internal co-ordination of the network of incubator managers. In the late 1980s centre managers and boards created the Australia and New Zealand Association of Business Incubators (ANZABI). Membership of the organisation was drawn from across the incubator sector, and focused on sharing and disseminating information, upgrading the skills of incubator staff, liaising and advocating to government, raising the profile of the incubator sector, and promoting ‘best practice’ industry performance. Despite the name, most of ANZABI’s membership was drawn from Australia, and in 2004 it was renamed Business Innovation and Incubation Australia (BIIA). By mid-2009, BIIA counted in its membership over half (some 45) of all incubators in the country.

Overall, incubators appear to have made a significant contribution to the development of many small firms. According to one study, in March 2005 there were an estimated 1,200 tenant businesses in incubators across the country; another 1,300 firms had already departed from incubators between 2000-2005 (BIIA 2009). Citing unpublished AusIndustry data, the BIIA estimated that ‘assuming a conservative annual turnover of $250,000 per graduate,’ the incubator industry had ‘directly facilitated more than $875 million in SME sales’ (BIIA 2008: 5).

**Key Characteristics of the Australian Incubation Sector**

In some respects, the Australian business incubation sector may have peaked by about 2005.
Since that time, the number of operative incubators appears to have declined – an early 2009 survey of the sector, for example, indicated that there were now approximately eighty incubators in operation. Nevertheless, the first quarter-century of the Australian business incubator community has seen the evolution of a business development model that has some distinctive characteristics.

Most noticeably, almost all incubators developed to date have been built on a not-for-profit basis. Few profit-based centres exist, and most others have simply sought to break even. Whether it is a stand-alone, embedded or technology incubator, funding for the establishment of each center has typically come from a state or federal government grant to purchase a building – usually an existing premises which is then renovated and made fit for purpose (such as an old primary school), although in some limited cases funds have been given to construct a completely new building. Some funds have, on occasion, also been given to meet the original fitout and commencement of the incubator. However, once an incubator has been established and commenced trading, incubator managers have generally worked on an “operating cost recovery” basis when setting fees for their tenants. Few, if any, incubators have attempted to fully recoup their extensive capital costs through the fees they charge incubatees. Management of most centres has typically been vested in an incorporated not-for-profit legal entity, further reinforcing the charitable nature of the venture.

Another distinguishing feature of the Australian sector is the relatively low level of involvement by universities and the formal research sector. Whilst there are a number of incubators with formal links to tertiary institutions (such as the University of the Sunshine Coast’s innovation centre), these are the exception, not the rule. Whereas some nations such as South Korea have developed national incubator systems that are strongly (if not principally) focused on technology transfer, Australian incubation has more frequently been focused on assisting the general small business community and nascent entrepreneurs, rather than on commercialising technology from research bodies. The emphasis has therefore been on providing affordable, flexible office space for tenants; access to shared resources; business advice and help; and links to professional and commercial networks, rather than commercialisation through technology transfer and capital inflows.

A final significant characteristic is that funding support from government for incubators has usually been limited in nature and duration (ANZABI 2004). Whilst there still remains a level of
financial support for some incubators from one government or another, overall, as BIIA (2009) themselves acknowledge on their website:

...neither the federal nor state/territory governments have a program to support business incubators once established. It is anticipated that funding provided in response to the feasibility will enable the incubator to be self-sustaining...

In many respects, this is not surprising. As Lane (2009) has noted, other national governments, such as that of New Zealand, have also adopted an approach of catalysing the initial formation of incubators, rather than sustaining them in the long run. Nevertheless, the move to self-sufficiency may create challenges for many incubators. Overall, federal government funding to date has been substantial – in April 2005, for example, there were some 75 business incubators being funded by the Australian government, and another four under construction (AusIndustry 2005).

An interesting aside is that Australia has also funded a number of incubator development projects in other nations as part of its foreign aid and development program. In late 2008, for example, Australia sponsored Fiji’s first ‘National Business Incubator Workshop’, designed to provide local citizens with more knowledge about how to launch and successfully manage a local incubator (Australian High Commission 2008).

Research Into Australian Incubation

One noticeable gap in the development of Australian incubation has been the relatively low level of formal evaluation and research into the sector.

Although a number of studies into Australian incubation already exist (see, for example, Gardner and Keypen 1994; Dowling 1997; Allen Consulting Group 2003; ANZABI 2004; AusIndustry 2005), a search of the academic and general literature indicates that little further detailed empirical research has been published since 2005. One of the most recent studies, that by Abdugh, D’Souza, Quazi & Burley (2007), used a mail survey to determine tenants’ satisfaction levels with the facilities provided by 38 incubators. The authors acknowledged considerable limitations with their research, particularly in regards to the generalisability of their findings and
the exploratory nature of the results (ibid.: 88). In contrast, Burnett’s (2009) doctoral thesis used a Qualitative approach to examine the management competencies required to successfully obtain funding and sponsorship within four not-for-profit incubators in Australia. An earlier conference paper by Burnett & McMurray (2008) qualitatively examined the motivations of family-based businesses that chose to relocate into an incubator.

This knowledge gap is not unique to Australia. The OECD (1999: 9) had already noted a decade ago that, although business incubators had emerged as a popular public policy strategy, the systematic evaluation of their performance had generally been lacking. They also argued that ‘notwithstanding the paucity of rigorous impact’, their own evidence showed notable variations in incubator performance between different countries (ibid.). Other researchers have also drawn the same conclusions. For example, a more recent review of the international literature by Bhabra-Remedios and Cornelius (2003: 13-14) also found that ‘… there is still uncertainty about whether incubators are achieving their goals and exactly what their impact is on their tenants. There is a gap in our knowledge about how an organisation develops in the protected environment of an incubator.’

As the above discussion indicates, there is clearly still capacity for more research to be undertaken into a wide number of issues within the Australian incubator system.

Conclusion

Business incubation tends to take different forms in different jurisdictions and, as has often been noted, reflects the needs and goals of each of the nations in which it operates. The Australian model that has emerged after a quarter of a century – that of a broad-based sector focused largely on start-ups, which is essentially expected to fund its own future – is different to that practiced in some other countries. Like any other national incubation system, it faces its own set of challenges for the future. Nevertheless, incubators have also carved out a role for themselves in the broad suite of business development programs that exist today, and will doubtless continue to play a role well into the foreseeable future.
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