

Incubator specialization and size: divergent paths towards operational scale

We analyzed the size and recruitment strategies of 96 business incubators in Sweden, Germany and Finland. Multivariate regression models (OLS) as well as descriptive evidence show that that larger incubators are more often focused on university-generated ventures as well as sustainability issues. Paradoxically, we also find that tenant companies without any sustainability focus vastly predominate also in sustainability-oriented incubators, suggesting that sustainability may be more of a legitimating strategy than an explicit selection criterion.

When probed about challenges of attracting promising startups to the incubator, the major challenges seen by incubator managers stem from “regional smallness”, “adverse economic cycle”, and “lack of supply of promising startups/entrepreneurs”. Respondents who referred to the region as a main issue related to difficulties in new tenant recruitment highlighted aspects such as the size of the region, its entrepreneurship tradition, geographic location, and flow of people out of the region. For example, one respondent claimed that “The deal flow in the region is generally low”. The respondents who referred to the business cycle as a main issue related to difficulties in new tenant recruitment highlighted aspects such as favourable economic conditions and the labour market (claiming that when the economy is thriving, people tend to stay in the work force and not start businesses). For example, one respondent claimed “Especially the last two years it has been difficult to find new tenants. This mainly depends on the favourable economic situation”. The last of the three most frequently mentioned reasons related recruitment

difficulties to the supply of entrepreneurs, that is, there were too few nascent entrepreneurs available. For example, “Currently, there are very little start-ups.”

Since our data allowed us to investigate the sustainability focus of the incubator tenants, we conducted a post-hoc analysis to investigate how strictly sustainability focused ventures maintained this focus when recruiting new tenants. The results revealed that only two out of 14 sustainability specialized incubators had a majority of sustainability focused tenants, with an average of only 20% sustainability focused tenants. Thus, it seems that most sustainability-oriented incubators have lax requirements concerning the focus of their tenants.

The literature identifies three motivations for a sustainability specialization among organisations: “competitiveness” (economic opportunities), “legitimacy” (improved image), and “ecological responsibility” (ethical motives). Incubators, like other organisations, may thus adopt a sustainability specialization to strengthen their image, and a tenant may join to strengthen theirs. While a small proportion of sustainable tenants do not preclude an authentic concern for ecological responsibility, our results indicate that the larger size of sustainability-oriented incubators may have more to do with legitimacy than intent concerning the actual criterion for tenant acceptance. First, incubators with a sustainability specialization may be more attractive to potential tenants because of the image effects that are conferred on their tenants, potentially increasing the intangible

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value of their offering to tenants versus other incubators. Second, a sustainability specialization may confer benefits from other stakeholders such as authorities, funders, and collaborators, encouraging incubators to highlight sustainability without necessarily adopting a stricter selection criterion. If vindicated, such window dressing constitute another example of the disconnect between societal needs and entrepreneurial efforts. To the extent that sustainability is a genuine goal for incubators, we propose that incubators with such a specialization adopt a focus on “greening” their tenants in terms of facilitating or encouraging sustainability thinking in their development of products and processes, rather than select tenants whose products and processes are already characterized as sustainable. Regardless of whether one adopts the cynical view of a sustainability focus as a primarily legitimacy-enhancing strategy, or the pragmatic view of sustainability specialization as a way of attracting more tenants whose development of commercial products and business processes can be subsequently influenced to become more sustainable, our results highlight the importance of distinguishing surface-level attributes from actual processes and activities conducted in incubators.

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