

According to the Annual Report on European SME's [4] the major findings are that young SME firms were the main creators of SME jobs in recent years. But job creation and destruction co-exist within all SME age groups and a number of older firms also contributed to SME employment creation. The Orbis and National Statistical Offices data show that contribution to SME job creation is highly concentrated among a small group of SME's as, among the overall group of SMEs having increased employment from 2007 to 2012, a very large number of SME's took on only a few additional employees [4]. International and domestic experience proves that without the existence and activity of many small businesses market cannot be developed, small businesses are created and liquidated and their emergence and development also create a kind of "movement" being is a necessary link, without which no energy of interaction of various components of the market is transferred [5].

Small businesses are a stimulant to create a high level of competition in the market for goods and services, resulting in improved product quality and higher standards of living. Eventually, they form the middle class, which is considered to be the basis for the stability of any society [6].

The Latvian economy mainly consists of SME's, 99.4%, of which, the majority are micro enterprises. The leading institution for promotion of innovation and policy development, the Ministry of Economics needs a clear vision about targeting financial support for SME's and knowledge enhancement. Actions executed so far have been limited and did not provide result in an overwhelmingly positive impact [7].

One of the financial instruments co-financed by the European Union Structural Funds is that for business incubators; these entities for national or regional economic and social development, with the added mission of evaluating and supporting creation and growth of new businesses. The main task of an incubator is to create successful new businesses, ones which, after leaving the incubator, will be financially self-sufficient [8].

Over the past 25 years, business incubators have been the object of the deep research that resulted in different opinions and conclusions. While the Joseph P. Eshun Jr. [9] indicates that business incubator as an environment formally designed to stimulate the growth and development of new and early stage firms by improving their opportunities for the acquisition of resources aimed at facilitating the development and commercialization of new products, new technologies and new business models. Business incubation as a social and managerial process aimed at supporting the development and commercialization of new products, new technologies and new business models. Thus, while a business incubator refers to the social organizational environment of the firm, in contrast, business incubation refers to the programs, activities, and events, that systematically identifies and evaluates new and emerging opportunities with the objective of bringing a community orientation and collective action to improvements in existing products or processes or the development of totally new products, new technologies and new business models. Both are imperative for firms, take time, and require a strategic, ideological, and pragmatic shift in organizational policies and routines [9].

Scientists S.V. Mikhailovich and L.A. Gamidulajeva [5] undertook a survey of business incubators in different countries and regions and have concluded that each region has its own core competencies, reflecting the potential of its territory. Found patterns should be stable enough for a certain period of time, and they suggest developing forecasts of the development of business incubators based on the proposed mathematical models that reflect the influence of factors on productive performance of the business incubators, but only in the medium term [5]. In response to poor survival rates of SME's, business incubation has been identified as a tool to help foster start – ups as well as to support existing SME's during their early stages of business development [10].

A.V. García and F.J.F. Seoane [11] also research business incubator activities. When examining the situation in Spain in three specific regions, they concluded that, however, the new economic reality requires changes in the mission of business incubators, which should go beyond the traditional model based on only offering space and basic services. The future of these facilities passes necessarily by way of offering an entrepreneurial full service, becoming a meeting point for entrepreneurs who enable the development of new business initiatives [11].

The principal aim of a business incubator is not only limited to improve quality of services to the new firms, but also move towards sustainability. To measure the success rate of incubators researchers often take variables such as incubator occupancy rate, tenant survival as well as growth of the tenant [12].

Incubation can be divided into three stages [13]:

1. Pre-incubation period, where the future company needs support in making of business plan, market research. Traditionally special knowledge skills are important at this stage. In Latvia the operator may apply at this stage to various non-governmental organizations, universities, participate in seminars and training courses.
2. Incubation period – During the incubation phase, Latvian incubators offer significant financial support, make available infrastructure, expert services, as well as support for new product development, also support for the cost cutting, which are also the services offered by the business incubators.
3. The post-incubation stage, when a company has the ability to operate continuously without support. At this stage, a strategic plan for business development is important, the availability of technology and experts is vital.

The first incubator was established in 1959 in New York, USA. Charles Mancuso leased premises he owned in an industrial centre to small businesses that had just commenced operations and guided them during the growth process. This incubator was unique up until 1970. Incubator precursors were essentially focused on technology or administrative support, an incubator combined both forms of support. Since 1970, business incubators began to spread around the world [14].

Originally, incubators differed from existing industrial parks and real estate agencies, due to the fact that they, in addition to leasing space, provided subsidized added-value business services. The National Association of Business Incubators was founded in 1985 with initially 40 members. Currently, worldwide there are approximately 4,000 business incubators worldwide, 1/3 of which are located in North America, 30% in Europe, while the remaining 40%, in developing countries [15].

In order to review the progress achieved, the European Court evaluated the ERDF financial contribution into the business incubator infrastructure. The European Court concludes that the ERDF has made a significant financial contribution to the creation of business incubator infrastructure, particularly in Member States in which this type of business support was relatively rare. However, the performance of audited incubators was modest. The disappointing results delivered by the audited incubators can be explained by the fact that established good practices had only been applied to a limited extent. More specifically, too little attention had been paid to the effectiveness of incubators' business support functions when incubators were being established. Secondly, incubation services were only loosely linked to clients' business objectives. Thirdly, monitoring systems within the incubators did not provide adequate management information. Finally, concerns about financial sustainability had hampered incubation activity. In most cases the expected benefits for the regional economy had not been evaluated [16]. Published research suggests that SME's which have received incubation support are significantly less likely to fail during the first few years after their establishment. The general 3-year survival rate of new companies is around 56 %, whereas the rate for companies which have been assisted by business incubators is around 90 % [16].

However, the company's operation of the business incubator can be represented by a simple input - output model (see Figure 1).

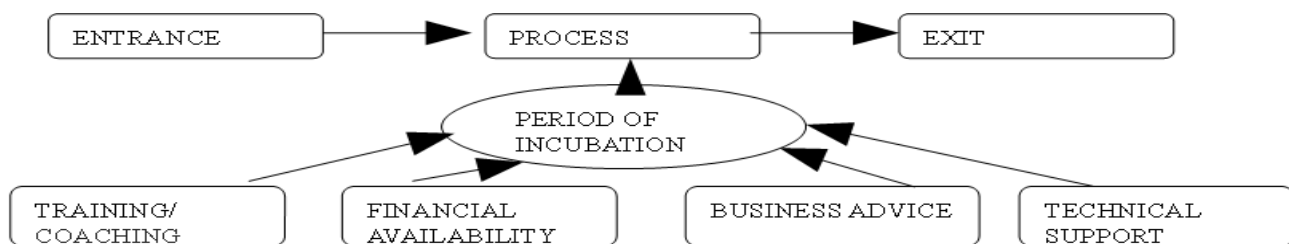


Fig.1. Business incubator simple input - output model [figure made by authors]

Business incubators provide an opportunity for new entrepreneurs to realize their ideas in real life, each company is focused on something different and they may become partners or customers who use services of each other, therefore, a synergy effect may emerge based on correlation with the several parties involved [1].

III. PRACTICAL RESEARCH AND DISCUSSION

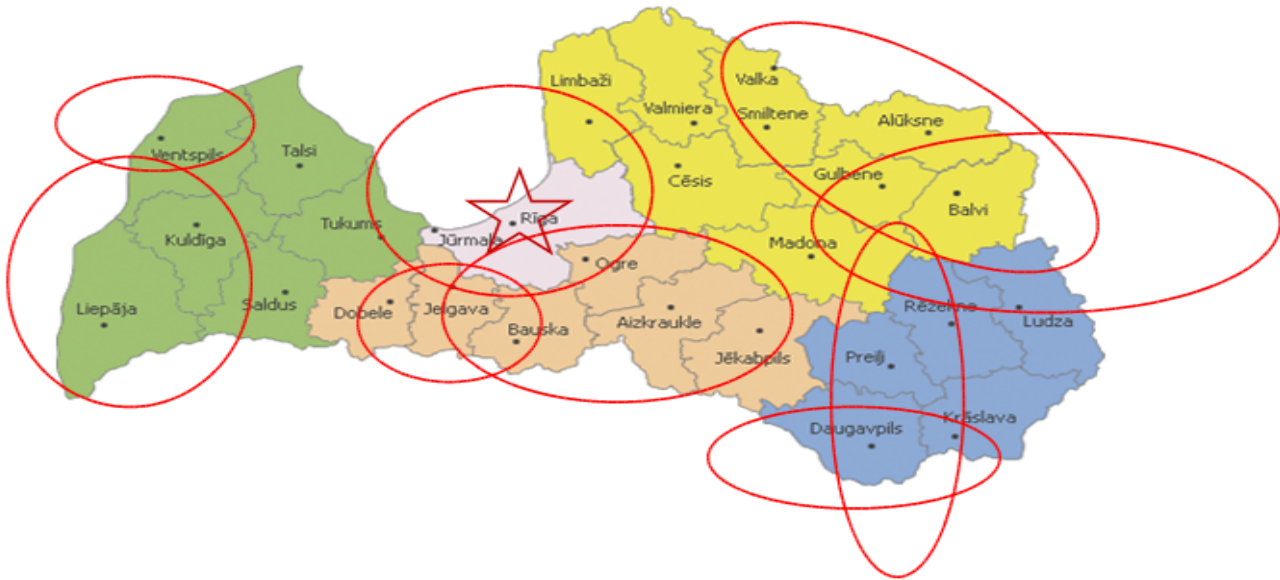
A project „Business incubators in Latvia”, implemented by Latvian Investment and Development Agency, with co-finance of European Regional Development Fund, addresses the problems of the unbalanced development of the market [17]. Provision of support to SME's in the European Union has become an increasingly important priority over the years. The amount of financial aid from the Structural Funds for the support of SMEs during two last programming periods amounted to 23 billion Euros and 15 billion Euros respectively [16]. Institutional networks influence an entrepreneurial internationalization process of SME's in such areas as market information, financial support, business contacts and partner searches [18]. Activities within the business incubator include provision of at least the following services [19]:

1. Rent management (equipped or non-equipped workplace for rent (electricity, gas, water, janitor, security, waste management).
2. Communication services (Internet, phone, address), secretarial services.
3. Business management (support) consulting, business plan evaluation and preparation of advice (financial planning).
4. Attracting additional financing sources (bank loans, venture capital).
5. Additional support facilities (information and advice on other support tools, such as EEN (Enterprise Europe Network), the NSP (National Support Program).
6. Sales and marketing consulting (market identification).
7. Legal services (drafting contracts with local suppliers or customers, and national suppliers and customers; to promote export; employment contracts and the drafting contracts in foreign languages), accountancy services.
8. Cooperation at local and international level (networking services).

9. Human Resource services.

Also was found, that traditional bank finance makes some challenges to SME's, in particular to newer, fast-growing and innovative firms with a higher risk profile [20]. Based on data on progress of incubators performance and their importance for the national economy, as well as implementation of EU Structural Funds, led to the following findings [1]:

1. Nine business incubators operated in 22 Latvian cities and one creative business incubator in Riga (see Figure 2).
2. 603 entities received support from incubators, of those virtual incubation accounted for 265 cases.
3. Enterprises launched this way have provided 1578 vacation places.
4. Number of companies, which have exited from business incubators – 694.
5. New products created by these companies – 864.



6. Premises rented out to companies – 16502.

Fig.2. Business incubators map in Latvia [17]

Good results have been achieved during the period from inception of incubators through to 2014. Table 1 shows the state budget received in taxes, and services provided by merchants services, and these data can be described as positive, as the EU Structural Funds paid the biggest part of services provided.

TABLE 1. INCUBATOR PERFORMANCE RESULTS FROM YEAR 2009 TILL 2014 [21]

Performance indicators	Incubator amount of performance indicators
Total turnover of merchants from incubators inception	EUR 139,54 mill.
Total amount of taxes paid by merchants	EUR 14,19 mill.
Total export volume	EUR 30,83 mill.
Incubator businesses provided services support amount	EUR 12,14 mill.
Total merchant number of jobs created	1578

Incubators were small and medium-sized enterprises, and the number of job places created was 1578 to 2014 (see Figure 3), which can be seen as a good performance. The given success of business incubators can be described also with the fact that in the end of 2014 from EU financing where left unused funds 4, 13 million EUR, and there was a decision to extend funding until the end of 2015, by dividing all amounts evenly to all regions and all incubators [1].

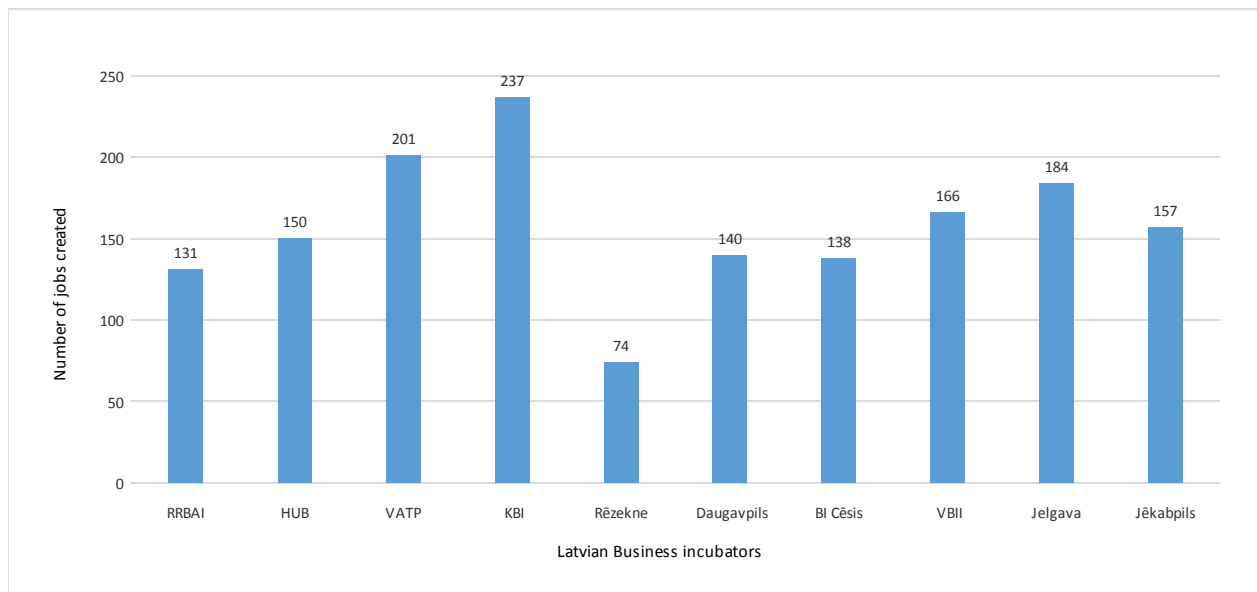


Fig.3. Number of jobs created by Businessmen [21]

According to the information from the Ministry of Economics (see Table 2), incubated business number is for 9.24% higher than it was predicted. In addition, it is predicted almost double virtual incubator number. On the other hand, the predictions on job vacancies number haven't met their expectations as it was 1514 predicted, although 1364 in reality only. However, the number of new services and goods that is 44% higher than 864 prognoses balances this minus.

TABLE 2. INCUBATOR PRECIDES AND ACTUAL RESULTS FROM YEAR 2009 TILL 2014 [21]

SMEs in incubation		SMEs in virtual incubation		Job vacancies created / preserved in incubated SMEs		New products created by SMEs	
Predicted	Actual	Predicted	Actual	Predicted	Actual	Predicted	Actual
552	603	135	265	1514	1364,1	600	864

With a help of businesses incubators businesses in Latvia provide advanced services, for example, textiles, organic products, information technology products, graphic design, fitness equipment products, accessories, innovative mobile catering equipment design, apparel, energy, construction design and construction, tourism industry, mechanical engineering, cosmetics, food production, manufacturing, biofuel production and other services [22].

The fact that the incubator services to new entrepreneurs can only be used for a maximum of 4 years has to be taken into account. After this period, they must move out of the incubator. According to data provided by Lursoft, not all new companies who exited from incubators have been successful later. After leaving the incubator, an entrepreneur has to face higher costs for rental of premises, accounting services, and further advisory services. Some companies have been able to develop successfully and gain the necessary experience in order to survive under highly competitive conditions/ those who have not been able to accept the new rules of the game choose to apply for insolvency or corporate liquidation.

According to conducted interview with a representative of the Ministry of Economics, this discovered problems of the business incubator program, from which the most important were [1]:

1. Insufficient flow of quality business ideas, lack of technology-intensive ideas.
1. Failure to ensure that research and development results are effectively commercialized and a need to promote work of the business and scientific sectors.
2. The authors of business ideas lack of business skills, insufficient knowledge and skill in the field of fund-raising, bad development of business plans.
3. Insufficient access to quality incubation and mentoring services.
4. There is no support available for pre-incubation services.

Overall, from the information obtained during the interview, a number of shortcomings were found out in the activity of business incubators. In the following point, the author would like to indicate the possible solutions [1]:

1. Expected outcome indicators are technical and do not define successfully incubated merchant signs - Business Incubator program is rather process than result-oriented. In particular, the procedure for selecting incubators for co-funding had not given due consideration to several elements which are crucial for incubation activity such as staff qualifications, the scope and relevance of incubation services and financial sustainability.

Solution: in the new business incubator activity should be clearly achievable result indicators. It is necessary to have clear business incubators operating plan and supportive activities, which could ensure the growth of enterprises, rather than the incubation process.

2. There has been no mechanism provided for participation in the decision-making process in the state (Ministry of Economics, Latvian Investment and Development Agency). Latvian Investment and Development Agency evaluate only reports.

Solution: The new business incubator activity, the responsible authority, which is responsible for its implementation, participate in the decision-making process regarding the merchant enrolment into business incubators this way ensuring the control what traders will get and whether they all need support.

3. Business incubator operators do not produce a clear plan for the incubation of enterprises for growth - there is no clearly defined action to be taken, the target figures and deadlines. In the business incubator, each accepted into the incubator merchant should develop an individual business improvement plan that describes the achievable performance, as well as performance indicators for effective result.

To ensure high standards of business incubator activity, a great deal depends on the availability of pre-incubation.

It would therefore be necessary to ensure therefore the pre-incubation stage, which would include the following activities:

1. Organisation of informative events within the region on the topic business start-up opportunities, with good practice and the incubator's support examples (at least 12 events per year).
2. The training courses for the business ideas authors on the relevant topics connected with the new business set up, business plan (with practical examples) and the definition of the business model (three training cycles per year).
3. Business operator's mentors provide assessments and recommendations on the prepared business plan.
4. During the pre-incubation time, the participants are provided space and a computer.
5. Prototype development (by prior agreement with the Ministry of Economics).

Greater attention to be paid to developing advice and management services given to new enterprises by incubator operators, especially in marketing and new business development. It is necessary to think about how to get more constructive feedback concerning the financial support provided. It is necessary to develop quality performance indicators - ones that could be used to assess the effectiveness of new entrepreneurs that have taken advantage of support from business incubators.

Business incubators would need to define each stage in the development of a company, dividing both forms of action and expressing it in the form of cash. During the new support period, in order to increase the viability of new companies, it is important to support companies prior to the incubation period, delivering professional expert advice by participating in a business plan development.

IV. CONCLUSIONS

Small and medium-sized enterprises play an important role in the creation of growth and jobs. Support for new business start-up entrepreneurs is viewed as essential. The advantage of a business incubator is the so-called synergy effect when companies are located in a common building, managers and specialists meet all the time developing contacts and sharing information and experience, which contributes to the development of ideas and new products.

Business incubators should not only be located in business centres, but also in rural areas, so contributing to development of business not only in large urban areas but also in the rural areas of Latvia. Business incubators as a tool of regional development in Latvia operate successfully, and the results achieved can be assessed as positive.

The European Union Structural Funds ought to contribute to financing of new entrepreneurs not only during the start-up period (the incubation period), but also to support them in the pre-incubation period. The main business incubator effectiveness ratio is a relative number of how many companies continue to work successfully after leaving the business incubator.

Business incubator operators do not produce a clear plan for the incubation of enterprises for growth - there is no clearly defined action to be taken, the target figures and deadlines. In the business incubator each accepted into the incubator merchant should develop an individual business improvement plan that describes the achievable performance, as well as performance indicators for effective result. In many cases the authors of business ideas lack business skills and knowledge. Business incubators should actively assist in establishing a professional management team. New businesses based on a poor business plan fail to survive once they have exited from business incubators and are no longer supported. The previous planning period (2007-2013) had identified such failures due to poor knowledge and experience in business plan development. It would

be necessary for the new programming period (2014 – 2020) to provide financial support at the pre-incubation period, and there is a necessity to pay more attention to direct business plans.

There is a lack of pre-incubation access to business incubators that could help business start-ups to prepare for entrepreneurship. Pre-incubation support in the new business incubator activities should be available, the potential business start-ups, in such a way the potential business start-ups will be prepared to begin entrepreneurship and could also access the training / consultation for a business plan preparation. With this, business incubator operators will gain a greater understanding of the business idea and the business start-ups can be prepared to start business ideas implementation. The goal of successful completion of the pre-incubation, should be a development of the commercialization ideas business plans by market participants, as well as 10% of the pre-incubation activities participants should initiate economic activities within 12 months of services receipt.

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