

# innovations

TECHNOLOGY | GOVERNANCE | GLOBALIZATION

## Accelerating Entrepreneurship

---

### *Lead Essays*

Randall Kempner Incubators Are Popping Up Like Wildflowers...

Mary Walshok A Systemic Approach to Accelerating Entrepreneurship

Susan Cohen What Do Accelerators Do?

---

### *Case Narratives*

Sabeen Mahmud Creative Karachi

Fabian Pfortmüller and Nico Luchsinger The Power of Trust

Ross Baird Village Capital's Peer Selection Model

Clara Chow and Lily Rubin Generation Enterprise

Eric Glustrom An Unexpected Education Evolution

Rodrigo Villar Esquivel From a Local Chapter to a Regional Catalyzer

---

### *Analysis and Perspectives on Policy*

Saurabh Lall, Lily Bowles, and Ross Baird Bridging the "Pioneer Gap"

Jared Konczal Accelerating into Control

Malik Fal Accelerating Entrepreneurship in Africa

Marissa Drouillard Mobile-Powered Development

Tonya Surman Building Social Entrepreneurship through Coworking

Marc J. Epstein & Kristi Yuthas Redefining Quality in Education

Saul Garlick Reversing the Tide of Youth Unemployment

# innovations

---

TECHNOLOGY | GOVERNANCE | GLOBALIZATION

## Lead Essays

- 3 Incubators Are Popping Up Like Wildflowers...But Do They Actually Work?  
**Randall Kempner**
- 7 A Systemic Approach to Accelerating Entrepreneurship  
**Mary Walshok**
- 19 What Do Accelerators Do? Insights from Incubators and Angels  
**Susan Cohen**

---

## Case Narratives

- PeaceNiche and The Second Floor*  
27 Creative Karachi: Establishing an Arts & Culture Center for the World's Most Rapidly Growing City  
**Sabeen Mahmud**
- Sandbox*  
43 The Power of Trust: Learnings from Six Years of Building a Global Community of Young Leaders  
**Fabian Pfortmüller and Nico Luchsinger**
- Village Capital*  
55 Village Capital's Peer Selection Model: Empowering Entrepreneurs and Investors to Create Value Together  
**Ross Baird**
- YouthBank and Generation Enterprise*  
71 Building Lean Startups at the Bottom of the Pyramid  
**Clara Chow and Lily Rubin**
- Watson and Educate!*  
85 An Unexpected Education Evolution: From Uganda to the U.S. and Beyond  
**Eric Glustrom**

*New Ventures México*

- 93 From a Local Chapter to a Regional Catalyzer  
**Rodrigo Villar Esquivel**

---

**Analysis**

- 105 Bridging the “Pioneer Gap”: The Role of Accelerators  
in Launching High-Impact Enterprises  
**Saurabh Lall, Lily Bowles, and Ross Baird**
- 139 Accelerating into Control  
**Jared Konczal**
- 149 Accelerating Entrepreneurship in Africa  
**Malik Fal**
- 169 Mobile Powered Development: Theory of Change and  
Policy Recommendations to Drive Social Impact  
at the Bottom of the Pyramid  
**Marissa Drouillard**

---

**Perspectives on Policy**

- 189 Building Social Entrepreneurship through the  
Power of Coworking  
**Tonya Surman**
- 197 Redefining Quality in Developing World Education  
**Marc J. Epstein and Kristi Yuthas**
- 213 Reversing the Tide of Youth Unemployment  
**Saul Garlick**

**About *Innovations***

***Innovations* is about entrepreneurial solutions to global challenges.**

The journal features cases authored by exceptional innovators; commentary and research from leading academics; and essays from globally recognized executives and political leaders. The journal is jointly hosted at George Mason University's School of Public Policy, Harvard's Kennedy School of Government, and MIT's Legatum Center for Development and Entrepreneurship.

## Incubators Are Popping Up Like Wildflowers...But Do They Actually Work?

More and more, business incubators resemble the roadside wildflowers that bloom in the Texas spring—they seem to be popping up everywhere.<sup>1</sup> Generally considered beneficial, they are often seeded by governments to promote economic activity. However, while the economic impact of wildflower tourism has been well documented, the economic and social impact of business incubators is far more opaque. Given the crucial need to support entrepreneurial ventures both domestically and in the developing world, it is critical to establish an approach based on holistic evidence that will leverage the potential of incubators to propel the small and growing business (SGB) sector most effectively.

Business incubators are programs designed to support early stage entrepreneurs by providing them with an array of business development services and access to potential investors. While all incubators have the common goal of supporting and launching viable SGBs into the economy, there is a wide variety of incubation models and a wider variety of business development services provided to participating firms. These services may include but are not limited to access to office space, connections to potential customers and investors, access to legal and accounting services, and business management advice.

Over the past decade, the business incubation field has experienced precipitous growth. A survey of business incubators showed that there were approximately two thousand incubators worldwide in 1998 and nearly seven thousand today. The majority of them are in North America and Europe, but businesses incubators in the developing world are growing rapidly. While no comprehensive studies are available, some estimate the annual growth rate of business incubators in the developing world to be over 20 percent.<sup>2</sup> Much of the growth stems from heavy public-sector investment in these incubators, which are, for the most part, nonprofit.<sup>3</sup> For

---

*Randall Kempner is Executive Director of the Aspen Network of Development Entrepreneurs (ANDE), a global network of 180-plus organizations that propel entrepreneurship in emerging markets. ANDE members provide critical financial, educational, and business support services to small and growing businesses based on the conviction that they will create jobs, stimulate long-term economic growth, and produce environmental and social benefits. ANDE is part of the Aspen Institute, an educational and policy studies organization.*

example, 54 percent of Brazilian incubators received financial support from the Ministry of Industry Development and Commerce,<sup>4</sup> and the Indian government recently seeded a \$6 million science and technology incubator as part of a larger project that aims to create many such incubators across the country. Infodev, the World Bank Group program designed to support incubators, was launched in 2002. This expanding program supports 242 incubators via its Incubator Support Center (iDisc) and provides research and direct funding to emerging-market incubators.<sup>5</sup>

Despite the rapid growth of these incubation programs, there is still little consensus about how successful they have been in catalyzing the growth and development of local entrepreneurs, let alone how this success should be defined and measured.

---

Incubators are merely one aspect of the larger entrepreneurial ecosystem, which is comprised of a wide variety of factors, including public policy, human capital, physical infrastructure, civil society, and cultural views of entrepreneurship.

---

Most incubators in developing countries are nonprofit, thus traditional measures of financial success are ill-suited to evaluate their performance. Many scholars suggest the use of goal-oriented performance metrics, meaning that success can be defined by the extent to which an organization meets its goals. While this approach offers obvious benefits over financial metrics, it is subject to a deluge of semantic disagreements: What is the goal of an incubator? Do all incubators have

the same goal? How do you compare a variety of incubation programs that have incongruent missions, models, and funding mechanisms? Even the most common performance statistic—survival of the incubated firms—can be problematic. According to some, the early termination of unsustainable businesses that are participating in incubation programs is beneficial to the economy, as resources will not be siphoned away from higher performing SGBs.<sup>6</sup>

Even if appropriate performance metrics can be established and it can be determined that incubators are generally performing well, the relative cost of these programs must be evaluated in order to determine if they are worthy of funding from the public and philanthropic sectors. Research focused on the public cost of incubators in the United States has been relatively inconclusive. Various studies have found the public cost per job created to be anywhere from \$150 to \$12,000,<sup>7</sup> but it is unclear how these figures would translate to a developing economy context. Given the lack of consistent findings and the lack of data available from emerging markets, much more research is required before we can claim that incubators are a worthwhile investment.

## *Incubators Are Popping Up Like Wildflowers...But Do They Actually Work?*

Finally, assuming that some incubators are successful and cost effective, it is important to understand why, and also to examine which factors may contribute the success of some incubators and the failure of others. While a number of best practices have been published by organizations such as the U.S. Department of Commerce and the National Business Incubation Association, it is unclear how these practices translate into a developing economy context.

Recognizing the need for additional research, my organization, the Aspen Network of Development Entrepreneurs (ANDE), launched a major research initiative on incubators in 2012 in partnership with a variety of our members, including Village Capital, I-Dev International, and Social Enterprise @Goizueta based at Emory University. While much of this research is still preliminary, several key themes are emerging.

Looking at emerging market incubators, it is clear that most do not yet have a sustainable business model. There is a good reason for this. Most of the firms being supported are cash poor, and most emerging market economies offer few opportunities for incubators to exit the firms they have incubated. Most incubators therefore rely on support from governments or foundations, and while such subsidies may be justified, the incubators we have examined generally do not have measurement systems in place that can provide the data to prove it.

Not surprisingly, this state of affairs leads to inconsistent funding streams for incubators. With such difficulty showing how its impact compares with other incubators or other intervention strategies, an incubator often face fickle funders who are unwilling to extend their support.

In looking at the impact incubators have on their SGB clients, we offer the following conclusions.

*First*, an incubator's selectivity in admitting entrepreneurs seems to be an important predictor of success. In addition to the obvious logic that better firms in lead to better firms out, there seems to be added value in having interaction and "cross-fertilization" of ideas and contacts with higher quality participants.

*Second*, graduates of incubation programs often still struggle to attract investors, which prevents them from scaling and having a significant impact on their communities. This gap between graduates and investors appears to be primarily a size gap, meaning that the graduate firms are seeking small capital investments while investors want to invest larger sums. Due to the prohibitively high due-diligence costs and the low prospective returns of making small investments in high-risk markets, most investors will overlook these graduates. Therefore, some highly successful incubator programs are attempting to bridge this gap by engaging the investment community directly and forming partnerships that will help streamline the investment process.

*Third*, it is essential to acknowledge that incubators are merely one aspect of the larger entrepreneurial ecosystem, which is comprised of a wide variety of factors, including public policy, human capital, physical infrastructure, civil society, and cultural views of entrepreneurship. To be successful, incubators must engage with this ecosystem and negotiate the nuances of their particular situation.

This brings us to perhaps the most important hypothesis of our research so far: the “ideal” investment may not exist for incubation. Because there is such a wide variety of SGBs, each with its unique needs and challenges, the model incubator is likely impossible to design. What worked in Silicon Valley almost assuredly will not work in Nairobi, as the supporting ecosystems are simply too different. Therefore, rather than trying to establish best practices to apply to the field in general, it may be more useful to think in the context of regional entrepreneurial ecosystems. Incubators should be designed to address critical gaps in those ecosystems but also to take advantage of a particular ecosystem’s assets.

To test this hypothesis, ANDE is working with a variety of organizations in Kenya to develop a holistic entrepreneurial ecosystem building project, with a critical focus on the role of incubators and accelerators. We expect this effort to allow us to provide relevant recommendations about the value of incubators and guidance about how they can be most effective in the context of a particular country. If we succeed, we’ll know more about whether the flourishing incubator industry should in fact be cultivated, and, if so, under what circumstances.

- 
1. Incubators typically serve earlier stage enterprises (pre-customers and pre-revenue), while accelerators support enterprises with existing customers and revenue. We use the terms interchangeably in this article.
  2. Rustam Lalkaka, *Lessons from International Experience for the Promotion of Business Incubation Systems in Emerging Economies*. New York: UNIDO, Small and Medium Industries Branch, 1997.
  3. Elena Scaramuzzi, *Incubators in Developing Countries: Status and Development Perspectives*. Washington, DC: The World Bank infoDev Program, 2002.
  4. Scaramuzzi, “Incubators in Developing Countries.”
  5. See “About iDISC” last modified October 16, 2013. <http://www.idisc.net/en/Index.html>.
  6. Sean Hackett and David Dilts, “A Systematic Review of Business Incubation Research.” The Netherlands: *Journal of Technology Transfer*, 2004. Hackett and Dilts, 2008.
  7. David Lewis, *Does Technology Incubation Work? A Critical Review*. New Jersey: Rutgers University for the U.S. Department of Commerce, Economic Development Administration, 2001. And, David Lewis, Elise Harper-Anderson and Lawrence Molnar, *Incubating Success: Incubation Best Practices that Lead to Successful New Ventures*. Ann Arbor: University of Michigan for the U.S. Department of Commerce Economic Development Administration. 2011

Produced with support from **The Ewing Marion Kauffman Foundation,**  
**The Halloran Philanthropies, and The Lemelson Foundation**

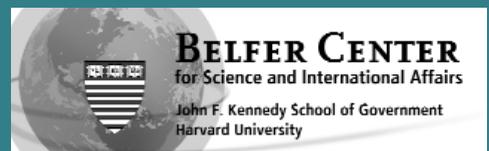


*INNOVATIONS IS JOINTLY HOSTED BY*

GEORGE MASON  
UNIVERSITY  
School of Public Policy

HARVARD UNIVERSITY  
Kennedy School of  
Government  
Belfer Center for  
Science and International  
Affairs

MASSACHUSETTS  
INSTITUTE OF  
TECHNOLOGY  
Legatum Center for  
Development and  
Entrepreneurship



[mitpressjournals.org/innovations](http://mitpressjournals.org/innovations)  
[editors@innovationsjournal.net](mailto:editors@innovationsjournal.net)