The New Venture Creation Approach: The Role of Business Incubators in Kenya

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Abstract

New ventures are source of innovation and change, although there are many success cases many new ventures quite before they have fulfilled their potential. Despite the growing number of business incubation amenities, the area of incubators and new venture creation is understudied. The goal of this study was to investigate the role of business incubators on new venture creation in Kenya. This study was underpinned by the Economic theory of Mark Casson, Schumpeter's theory of Innovation, Dynamic Capability View and Theory of Business Incubators. The study used desktop analysis of existing literature on business incubations and new venture creation. The study found that business incubators are critical in naturing and developing new ventures and they are also effective in new venture creation. Several studies have focused primarily on the exterior perspective, ignoring the interior perspective, in which the entrepreneur plays a significant influence. Moreover, the studies on business incubators and the development of new ventures have been conducted in industrialized nations, yet only a few have been conducted in developing nations. Most of the study on business incubators and new venture creation had employed single research design and thus no single design is perfect. The study recommended combination of descriptive and explanatory research design to be used. Multiple regression model to be used to analyse the direct, mediating and moderating effect of business incubators and new venture creation. The reviewed studies focused on government business incubators and new venture creation. This study recommended a study on business incubators and new venture creation focusing on business incubators in universities in Kenya.

Keywords: Business Growth, Business Incubator, New Venture Creation, Schumpeter's theory of Innovation

Introduction

Business incubators and the practice of business incubation boost the chances of new venture survival in the early phases of development. It aims to foresee and clarify how the likelihood that a new enterprise will survive the early phases of development is increased by business incubators and the process of business incubation. (Njau, Mwenda & Wachira, 2019). According to Sihle and Mjumo (2022), incubator is a type of company that acts as a source and manager of innovation within developing businesses, providing these businesses with resources at various phases of growth while also absorbing the financial risk associated with the possibility that they would fail. The incubator is the unit of analysis, and the outcomes of the incubation process are measured in terms of the growth of the incubated company and its financial performance at the time the company exits the incubator. These are markers of successful outcomes Sedita, Apa, & Grandinetti's, 2019).

The Kenya government has several policies that have been put in place to guide in the startup ecosystem. The government has established The Startup Bill (2021) to support the new ventures (UNDP, 2022). The objective of the Act is to offer structure: to foster a culture of innovation, link startups with investors, financial institutions and such other institutions; to institute incubation amenities at the National and County government and lastly for the checking and assessment of the legal and governing structures to inspire the growth of new ventures (Senate Bill, 2020).Despite all the effort the government has made to support innovation, the study by Kenya Bureau of Statistics (2021) found that, presently there is no national innovation and commercialization policy and strategy.

Business incubators in Kenya play a key role of supporting the innovators by establishing a scene where thoughts can be offered, verified and sustained economically to make them come into certainty. According to Njau, Mwenda and Wachira (2019), business incubators bid for diverse amenities that replicate their own customer base and also specific resources existing with their individual communities. This has given room for different incubating models some of which include; university business incubators, independent private incubators, corporate private incubators, and business innovation centers.

According to the study by Muathe et al., (2022), entitled Understanding the Startup Ecosystem in Kenya: Drivers, Barriers and Opportunities. The study investigated the factors that are driving the startup ecosystem in Kenya as well as the obstacles and possibilities that exist there. The study found that some of the challenges that facing start-up in Kenya include lack of access to financing, lack of coordination in the sector, too many businesses, lack of sufficient policies and guidelines on incubation and lack of good monitoring and evaluation systems.

Many researches have been done on establishing a new venture. The studies has mainly focused on characteristics and factors that encourage the establishment of new businesses and contribute to their success (Njau, Mwenda & Wachira, 2019). The incubation thought is a real way of connecting technology, knowledge and capital and seeks an effective means to influence entrepreneurial spirit hence accelerating the development of new ventures. Business incubators support the new ventures by; developing business plans, providing seed capital, availing space, administrative services, shared equipment, specialized professional service and assist in the establishment of management teams (Nzomo, Mwangi, Matu, Muchiri & Rutenberg, 2020).

Statement of the Problem

According to United National Development Programmes (2022), The Kenya government has several policies that have been put in place to guide in the startup ecosystem. The government has also established The Startup Bill (2021) to support the new ventures. The objective of the Act is to offer structure: To foster a culture of innovation, link startups with investors, financial institutions and such other institutions. To enable investments in new ventures, to assist by providing fiscal and non-fiscal. To stimulate a supporting atmosphere for new ventures establishment and development. To institute incubation amenities at the National and County government. Lastly for the checking and assessment of the legal and governing structures to inspire the growth of startups (Muathe & Otieno, 2022, Muathe et al 2022).

According to Kenya National Bureau of Statistics (2021), the challenges in the new venture ecosystem include: lack of financial resources, absence of government provision, most of the investors focus on tech startups, low commercialization of research, and low distribution of services for example internet, computers among others. The study also found that age and gender are also a challenge because most startups are operated by young people and only 22% are startups for women. Nzomo et al., (2020) stated that lack of protection of innovation through intellectual property rights is also a big challenge.

Wang and Jiang (2019), stated that new ventures have not devised any practical roles, applied effect procedures or made steady relationships with investors hence attainment of resources is difficult. For others being new can hinder them from getting resources from external sources making it difficult to develop. Vincent and Zakkariya (2021) discovered that the elements of business incubators had a favorable effect on start-up performance. Subsequent studies have concentrated on the effect of business incubators associations, such as, their performance of new ventures and the performance of business incubators (BIs). However, they have, however, overlooked how business incubators affect new venture creation.

The topic of business incubators and establishment of new venture is understudied and suggests a starting point for future studies, paying proper attention to the critical characteristics on establishment of new venture notwithstanding the rise in start-ups and incubators for businesses (Kibai & Mary, 2018).

Objectives of the study

The purpose of this study was to examine the role of business incubators on new venture creation approach in Kenya.

Literature Review

It covers the theoretical literature review and empirical literature review.

Theoretical Framework

The section presents the existing conceptual and theoretical review of literature on new venture creation and the role of business incubators.

Economic Theory of Mark Casson

The theory was developed by Mark Casson in 1982, it states that for the economy to grow it began on the discount of its current labor force. The ambition to obtain something novel will lead to social revolution. Entrepreneurs are important to society's well-being by presenting new ideas and goods. The discounted labor force ends up starting their own businesses with the ideas they have. This dispute is stable with the notion of start-ups where employees move away being employed to self-employment. New venture creation is a process of perceiving or implementing a new organization (Gartner, 1985). Schumpeter, in his work titled "The Theory of Economic Growth," published in 1939, considered new enterprises to be one of the variables that influence economic progress. According to Hausberg and Korreck (2018), who indicated that business incubators are very helpful in the development and existence of new ventures while they are vulnerable. The theory is link to the study because new venture are very helpful in economic development.

Schumpeter's Theory of Innovation

Joseph Schumpeter, an economist, put up the concept that would later bear his name in 1939. It seems to imply that the primary reason for greater production as well as growth in business is innovation in the business world. According to Schumpeter (1939), the repeating method is nearly entirely the outcome of innovation in the organization, which can refer to either the commercial or the industrial sector. By "innovation," he refers to changes in the methods of production and transportation, the improvement of a new product, a shift in the organizational structure of the manufacturing process, the entry into a new market, and other similar developments. The word "innovation" is frequently used interchangeably with the word "invention," although innovation refers more specifically to the business uses of new forms of technology, new materials, new procedures, and new sources of energy (Muathe, 2010, Henrekson & Sanandaji, 2020).

The Schumpeter theory was criticized by Lim and Fujimoto (2020), who stated that it is not only difficult but also ineffective to achieve the objective assessment of Schumpeter's theory of the commercial progression because its arguments are based more on the sociological aspects than the economic aspects. This was said to be the case due to the fact that Schumpeter's theory of the commercial progression focuses more on the sociological aspects than the economic aspects. He goes on to argue that the theory ignores other elements that contribute to the instability of the commercial endeavors, and he says this repeatedly. There are many more elements besides innovation that contribute to economic instability. Innovation is just one of these aspects. Yet, in spite of these flaws, Schumpeter's theory of innovation is substantially applicable to the economy as it exists now and is utilized to govern the variations in the economic climate (Lim & Fujimoto, 2020).

Since the majority of firms are started as a direct result of innovations, the notion has been applied to the process of starting new businesses (Allah & Brathwaite, 2016). The research is pertinent to the study since the vast majority of new businesses are birthed as a direct result of innovation, and a business incubator is a form of innovation that assists in the establishment of new businesses.

Resource-Based View Theory

While the resource-based approach succeeded in the 1980s, the foundations of the debate can be traced back to Penrose (1959), who branded the corporation together as a managerial organization as well as a set of productive possessions. The terms "resource" and "capabilities" should not be used interchangeably. They insisted that the distinction between resources and capabilities is that resources are the available factors that are owned by the company, while capabilities are the things that can be done by the company. (Amit & Schoemaker 1993). The organization gathers its resources by making use of a diverse assortment of the assets and connection devices owned by other companies. These include things like technology, expertise, information systems, and the trust that exists between administration and labor. On the other hand, capabilities refer to an organization's potential to organize its resources and work toward the achievement of specific objectives. Unlike the resources with the utilization of human resources, capabilities are developed in the areas of developing and substituting information.

The availability of resources facilitates the formation of new businesses and the operation of business incubators, hence promoting the firms' continued expansion and viability. In the early stages of venture creation, business incubators rely heavily on the resources provided by their owners. The provision of financial resources is not done so directly but rather through the medium of several networks. The availability of resources will facilitate both the development of new businesses and their subsequent growth (Barney, Ketchen & Wright, 2021).

The notion discussed the material resources, such as land, equipment, and materials, that are necessary to establish new businesses (Marshall, Meek, Swab & Markin 2020). Incubators for businesses are one example of the physical resources that encourage the formation of new ventures. The business incubator is a resource, and in order to build a new company, both physical and human resources are required. Hence, the study is pertinent to the study because of this.

Dynamic Capability View Theory

Teece and Pi-sano (1994) were the ones who initially established the Dynamic Capability View theory (DC), and it was then revised by Teece, Pi-sano, and Shuen (1997) in order to overcome the constraints of the RBV. According to Teece and Pi-sabi (1994), "Dynamic Capacity" (DC) relates to firms' capacity to integrate, develop, and reconfigure both external and internal capabilities in order to respond effectively to surroundings that are undergoing fast change. The resource-based theory motivates managers to concentrate on strategies for locating certain resources held by the organization. Despite this, the theory does not adequately address various aspects of the manner in which businesses should develop a competitive edge in practice.

According to Gimenez-Fernandez et al (2020).'s findings, for a firm to be competitive in a business climate that has finite resources, the new venture needs to depend on internal and external resources in a balanced manner. They made the observation that the Dynamic Capabilities hypothesis has a beneficial impact on the production of new businesses. According to Wang, Dai, and Gao (2022), they stated that business environments are changing rapidly, and as a result, business owners should not rely on traditional methods of new venture creation. Instead, they should use business incubators to assist them in the new venture creation. The theory is pertinent to the investigation because, in the present day, incubators are one method that entrepreneurs are employing to acquire a competitive advantage in the business environment in order to establish new businesses.

Theory of Business Incubation

Hackett and Dilts are responsible for the development of the theory (2004). It is stated that business incubators and the practice of business incubation boost the chances of new venture survival in the early phases of development. It aims to foresee and clarify how the likelihood that a new enterprise will survive the early phases of development is increased by business incubators and the process of business incubation. It postulates that the incubator is a type of company that acts as a source and manager of innovation within developing businesses, providing these businesses with resources at various phases of growth while also absorbing the financial risk associated with the possibility that they would fail (Bacharach, 1989). The incubator is the unit of analysis, and the outcomes of the incubation process are measured in terms of the growth of the incubated company and its financial performance at the time the company exits the incubator. These are markers of successful outcomes.

Empirical Review

New Venture Creation

The earliest concept of new venture formation came from renowned theories of Schumpeter (1934), he deliberated new ventures as one of the elements influencing economic growth. He believes that the emergence of new businesses is reliant on how entrepreneurs identify opportunities and spurs technological advancement. He alleged that economic growth may be fueled by innovation and creative destruction.

Donbesuur, Boso and Hultman (2020), studied how opportunity recognition affected the success of new ventures. Using 316 survey responses, from SMES in Pakistan, the results demonstrate that, by use of opportunity recognition as mediating variable, entrepreneurial orientation results to new ventures performance. According to the study, businesses with a high entrepreneurial orientation (EO) may recognize and seize new opportunities in addition to exhibiting better performance.

The study by Del Bosco, Cherici and Mazzucchelli (2019), investigated the relationship between academic creativity and new enterprise formation. It offers an illustration of an Italian company that has created a cutting-edge business model, turning academic innovation into fresh businesses and addressing some of the major difficulties of the academic entrepreneurial process. Del Bosco et al. (2019) claim that it differs from both incubators and venture capital funds because it combines various kinds of assistance, such as managerial and entrepreneurship skills to establish an entirely novel venture as well as technological expertise to develop innovation. It also serves as the pioneer of each new venture. The paper has theoretical and practical consequences since it defines how this innovative business model promotes academic entrepreneurship and it makes available a model for possible replication in different contexts.

Du and Kim, 2021), note that although a few technology companies are capable of launching their organizations and creative goods (or services) faster than others. The study examined how some firms get off the ground rapidly and how accelerator programs help budding technology ventures shorten their launch times. Using four case studies of technology ventures that started up rapidly, the rapid launch of startup is explored and accelerator mechanisms are explained. The results indicated that practical approach helps owners of the accelerator programmes (private companies, non-profit or profit, universities) establish and carry out initiatives that will aid business in starting faster (Du & Kim, 2021).

Business Incubators

Joseph Mancuso, who is widely regarded as the “founder” of incubators, launched the very first business incubator in 1958 in a big factory in New York’s Batavia Industrial District that was being used for nothing at the time (NBIA, 2009). In 1980, there were less than one hundred business incubators operating in the United States. Hugen (1990) underlined that business incubators were established as a strategy for economic growth designed to fill vacant buildings and lower the rate of unemployment during the post-industrial era. The purpose of these incubators was to reduce unemployment and fill vacant buildings.

The function prayed by business incubator include; providing the basis for the formation of competitive businesses and also training future entrepreneurs. Incubators for business are organisations that provide conducive environment for birth and growth of businesses. They also facilitate and hasten the practice of innovation. They also provide young entrepreneurs with supplementary training in the technical and administration aspects of the new firm which enhance growth of their businesses. This training complements what the entrepreneurs already have in place (Husberg & Korreck, 2018).

According Sihle and Mjumo (2022), there are two distinct categories that can be assigned to incubators: those with profitable objectives, such as private incubators, and those with non-profit purpose, such as universities incubators and business centres. Private incubators are an example of the former category. The researchers stated that the primary purpose of public incubators was to lower the expenses associated with running a business by providing a range of services, space infrastructure, technical experience, and assistance in the process of developing a business plan. Because of the increase in the number of private incubators, this kind of positioning started to shift as the changes and evolution of markets progressed.

The study by Kibai and Mary (2018), The study found that, the excellence and application of incubation services as well as the way in which they are governed, are all impacted by the different strategic objectives pursued by organisations (profit versus nonprofit). Participating in an incubation program is beneficial for startups because it enables them to obtain workspace that is either free or available at a reduced cost, guidance for experienced business people, access to potential investors and in some cases, financial assistance in the form of loans.

Business incubators can be grouped on basis of their goals, types, source of financing, industry, formation location and the specific combination of all of these factors. For instance, the goal of a non-profit incubator is to enhance the size of existing tax bases while also producing new jobs. Incubators are typically run by public sector organizations rather than private corporations. The return on investment and the profitability of their businesses are the primary concerns of for-profit incubators. Incubators housed within universities might fall anywhere on the spectrum between for-profit and nonprofit organizations (Hausberg & Korreck, 2018).

Business Incubators and New Venture Creation.

In their study on the effect of business incubation on the commercial and non-commercial success of technology companies, Vincent and Zakkariya (2021) came to the following conclusions using multivariate multiple regression analysis; that new technology businesses are an essential contributor to technological advancement, the commercialization of new technologies, and overall economic expansion.

A total of 23 incubation centres which include college and university, public and private incubation facilities were used. Descriptive study design and survey method was used for investigation.

Vincent and Zakkariya (2021) discovered that business incubation dimensions are significant in creating start-up performance. The owners/managers of business incubators should make an effort to adapt and enhance that incubation services are in tailored according to the requirements of the companies that are being natured. The research indicates a flaw in the methodology; the cross-sectional design was utilized; therefore, it is important to rule out the possibility of causality. Instead, a longitudinal approach should be taken to demonstrate the connection between business incubation and startup performance. Because it will demonstrate the connection between company incubation and venture development, this will fill the void that has previously existed.

Du and Kim (2021), stated that new business need a variety of growth methods, both market and non-market based. Market based are the best suited to the complicated contexts in which they operate. The research found that there are six alternative methods to achieve high performance, each with their own unique configurations. For a business to have experience good performance it requires either an entrepreneurial or market orientation, or both; nevertheless, there is no single pathway that consistently leads to failure initiatives. This provides comprehensive representation of how new enterprises function and explains why independently contradictory outcomes can be valid when looking at the overall picture. The study should include other variables for example financial orientation. This study fills this gap since it analyzes the effect of business incubators on the creation of new ventures, and it will incorporate a financial perspective as well (Du, & Kim) (2021).

Luke, Longo and Zauhar (2019) questioned whether or not business incubators actually contribute to the increase of entrepreneurial activity. Data collected from a sizable cross-section of innovative Italian startup companies. The purpose of the research was to investigate the temporary and lasting effects that business incubators have on the growth of creative start-ups with regard to the generation of sales revenues and new jobs. The study took six years with a sample of six hundred, five hundred and forty-four innovative Italian start-ups of which six hundred and six (606) were nurtured, was tracked. Analyses using propensity-score matching, Tobit regressions, and Poisson regressions all suggest a significant negative effect of incubator tenancy on sales revenues, but there is no significant effect of incubation on job creation.

According to Luke et al (2019), the research applied longitudinal studies, which are characterized by the use of repeated measurements to track the progression of a single subject over the course of a prolonged period of time. It is recommended that a cross-sectional analysis be performed on the same study because it takes less time to set up and can be used for preliminary evaluations of associations. This study sheds light on the link between incubators and the birth of new businesses.

According to the study conducted by Sihle and Mjumo (2022), it was found that the practice of business incubation is becoming increasingly common in South Africa. The study was conducted using qualitative research approach. It was found that business incubation is just much about supporting start-ups and growing entrepreneurs as it is about the business gains that business incubators extract from the development.

Mhlongo and Mzyece (2022), pointed out that investors from the private sector, especially banks were considered to be the key sponsors of fintech business incubators in South Africa. The research was conducted in South Africa, a country that, in comparison to Kenya, is subject to a diverse range of environmental conditions and is governed by a distinct set of regulations. By doing research on business incubators and the formation of new ventures in Kenya, the study helped bridge the contextual gap that existed before it.

Research Methodology

Desktop review was utilized in this study to gather and examine information from online repositories, the Internet, and government publications (Bennett et al., 2005). Although this method is less effective than field research, it was nonetheless found to be valuable. This is because it determines whether what is being observed is real or false in order to lay ground for future research (Mugenda & Mugenda, 2003). According to Karitu et al., (2022), since the character of the object being examined limits the investigator from altering a variable, it cannot be done out in a controlled environment, or most likely, the investigator cannot determine all the effects on the entity, a more exploratory approach to the subject is more effective.

Findings and Conclusion

The study found that business incubators assist in developing new ventures and that they are effective in new venture creation. Majority of the reviewed studies focused solely on the outward approach while ignoring the internal one, where the entrepreneur plays a significant role. The business incubators are also observed as a process for transition in which in which the Private, university, government, and nonprofit are interrelated. In this study incubator affiliation will act the mediating variable and entrepreneurs will be the moderating variable to show the effect of business incubators and new venture creation. The study found that numerous studies on business incubators and new venture creation are done in developed countries while very few have been done in developing countries and none has been done in Kenya.

Majority of the study on business incubators and new venture creation have employed longitudinal research design. Moreover, these studies have used a single research design and thus no single design is perfect. The study found that most of the sample size are very small hence the studies cannot be generalized.

Contributions

The study acts as a future research reference for the academicians on the effect of business incubators and new venture creation. It will benefit the entrepreneurs/managers through; better performance and output; better-quality knowledge and skills. The entrepreneurs will become more innovative since they will be able to understand the importance of business incubators. The study benefits the policy makers since they will come up with policies on business incubators and venture creation.

Recommendations

In the reviewed literature it was established that most studies focused on exterior viewpoint, ignoring the inside viewpoint, in which the entrepreneur plays a significant role. It is recommended that future research should incorporate the moderating effect of entrepreneur as well as the mediating effect of incubation affiliation on business incubators and new venture creation. Business incubation should be used as independent variable with the following measures; business support services, availability of infrastructure and availability of experts. New venture creation should be the dependent variable and the measures include; new companies developed and number of products developed.

The study recommended combination of descriptive and explanatory research design to be used. While, multiple regression model will be used to analyse the entrepreneurs mediating effect on the relationship between business incubators and new venture creation and the incubation affiliation moderating effect on the relationship between business incubators and new venture creation. The reviewed studies focused on business incubators in government sector.

This study recommended a study on business incubators and new venture creation focusing on business incubators in universities in Kenya.

Limitations

The study adopted desktop review which is qualitative in nature and is subject to biasness. Therefore, future research should adopt a quantitative design like a mix of descriptive and explanatory designs that are objective and more objective and robust. Future studies may use primary data to validate the current the study findings since studies relied on secondary data which sometime can be outdated.

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