The networked business incubator—leveraging entrepreneurial agency?

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Abstract

Recent years have seen the emergence of a new incubator model, the “networked incubator”, which is a hybrid form of the archetypal business incubator (BI), based on territorial synergy, relational symbiosis, and economies of scope. This paper looks at why this new model has emerged and what distinguishes it from the more traditional incubator model. The theoretical basis of the research is social capital theory. Empirically, the paper is based on 6 months of ethnographic data collected in one of the first known and documented networked incubators. The closing section of the paper addresses the implications for research and practitioners. © 2003 Elsevier Inc. All rights reserved.

Keywords: Business incubators; Networked incubators; Entrepreneurship; Social capital theory; Network theory

1. Executive summary

In recent years, we have seen the emergence of a new incubator model: a networked incubator, which is a hybrid form of the archetypal business incubators (BIs). The networked incubator analysed here is based on territorial synergy, physical proximity, relational symbiosis, and economies of scale.

This paper addresses the rationale behind this new model, why it has emerged, and what distinguishes it from the more traditional incubator model. Furthermore, the paper considers...
factors facilitating or hindering networking in a networked incubator. The theoretical basis of
the research is social capital theory and network theory.

Empirically, the paper is based on 6 months of ethnographic data collected in Denmark in
one of the first known networked incubators. The preliminary findings show that the
mechanisms that facilitate or hinder networking in an incubator can broadly be divided into
two main categories: (i) mechanisms connected to individuals and their relations with each
other and (ii) mechanisms related to the construction of the incubator.

The emergence of this networked BI model has some important implications. The
networked incubator investigated here is driven by a bottom-up approach, where the new
ventures themselves have developed and managed the incubator. Thus, from a policy point of
view, the model differs from the traditional top-down approach, which calls for new ideas on
how public agencies can support such initiatives most effectively, which, as points of
departure, spring from the new ventures.

From a practical point of view, i.e., with regard to both the individual venture and the
management of BIs, the results call for other skills than the traditional administrative and
managerial ones, i.e., collaborative and networking skills. This also has implications for
educators of future entrepreneurial actors.

The theoretical implications are that researchers should realize that no one model can
account for the complex social dynamics at work in a networked BI. Thus, due attention will
have to be given to the specific context and circumstances.

2. Introduction

Small enterprises constitute the single largest job creation segment of our economy,
although it is generally recognized that only a few make it through their first years (Cupl,
1990; Sherman and Chappell, 1998). Entrepreneurs play a key role in this process. Generally
speaking, entrepreneurs are individuals who recognize and exploit opportunities made
possible by recombinations of existing production factors and/or recognized changes in the
market and/or new technology.

Lately, there has been an increasing focus on the process by which new firms are created.
This process is generally referred to as entrepreneurship. Until recently, most of the research
investigating the founding of new businesses has concentrated on the personal characteristics
of entrepreneurs (e.g., Brockhaus, 1982). As pointed out by McClelland (1961), scholars have
tried to identify and characterize a variety of personal attributes that relate to successful
entrepreneurs (Timmons, 1985). This approach to entrepreneurship has been widely criticized
inasmuch as among other things, it underestimates the extent to which such crucial skills can
be acquired by learning (Deakins, 1996).

Furthermore, it diverts attention from the importance of the environment and of the
structural and positional characteristics of the entrepreneurs themselves (e.g., gender and race,
as well as the entrepreneur’s social network). Finally, it fails to recognize the role and
importance of social capital and trust-related aspects during entrepreneurial activities.
Entrepreneurship necessitates the presence of both opportunities and the enterprising
individuals to take advantage of them (Venkataraman, 1997). Shane and Venkataraman (2000) have suggested that entrepreneurship involves the study of (a) the sources of opportunities, (b) the processes of discovery, (c) evaluation and taking advantage of opportunities, and (d) the group of individuals who discover, evaluate and exploit these opportunities.

It has been argued that new and small ventures typically fail due to the lack of managerial skills and/or access to high-risk capital (Allen and Rahman, 1985; Smilor and Gill, 1986)—particularly in the case of high-tech ventures. Oftentimes, entrepreneurial actors possess specialized knowledge but lack general business skills (Lyons, 2000). For a newborn firm in general and/or ‘premature’ firm in particular, life can often turn out to be tough and full of difficulties during the first critical years. Access to administrative support and reduction of early-stage operational costs, such as rent, service fees, etc., are typical critical barriers which many ‘new infants’ have difficulty in overcoming.

Providing premature business facilities to get around such obstacles thus seems obvious. And this is precisely where the BI comes in—as a politically attractive and widely accepted means to increase the chances of survival for new business ventures (Allen and McCluskey, 1990; Smilor and Gill, 1986). Moreover, it is a geographically anchored arrangement, typically with a physical presence, although it is recognized that virtual alternatives exist. However, much research on BIs tends to take a rather descriptive and atheoretical approach, typically in the form of extensive documentation of the various services provided, e.g., monitoring the number of training programmes carried out, keeping track of how many firms have left the incubator, reporting how many distinct services are available to clients, average incubation time, and networking activities (Allen and McCluskey, 1990; Campbell and Allen, 1987; Fry, 1987; Smilor and Gill, 1986). In other words, the focus is on the directly measurable aspects. There has been less focus on the indirect and social aspects, and in trying (in theoretical terms) to account for what was observed or documented. This paper contributes an insight into a specific, new type of incubator arrangement, the networked incubator, and thus focuses on network activities (private as well as business-related) among firms located in this networked type of incubator. It analyses and discusses the preliminary findings of a 6-month field study from the perspective of social capital theory.

The paper is organized as follows. Section 3 attempts to flesh out the continuum of BIs, while at the same time identifying a new, hybrid form (the networked BI). Sections 4 and 5 describe the theoretical and methodological approach used in this study, while Section 5 introduces the case study (MG50—the networked BI). The preliminary research findings and conclusions are discussed in Section 7. Finally, Section 8 addresses the implications for further research and decision making.

3. BIs

BIs are generally perceived as a kind of infrastructure geared to support and nurture the establishment and development of small and medium-sized enterprises (SMEs). Recently, there has been a significant increase in the number of incubators (Allen and McCluskey,
1990; Barrow, 2001; Sherman and Chappell, 1998; Smilor and Gill, 1986), which can also be seen from Fig. 1. The increasing diffusion of these BIs calls for a more detailed look at what this phenomenon actually is, the specific sources of value it provides to entrepreneurs and entrepreneurial activities¹, the organizational settings under which it works, and the practices, resources, and/or services it employs to facilitate or hinder new start-ups and subsequent growth.

BI is an umbrella term for any organization that provides access to affordable office space and shared administrative services (Allen and McCluskey, 1990; Fry, 1987). Over the years, BIs have been marketed under a variety of more or less synonymous labels, including ‘Business Accelerators’ (Barrow, 2001); ‘Research Parks’ (Money, 1970); ‘Science Parks’ (Martin, 1997); ‘Knowledge Parks’ (Bugliarello, 1998); ‘Seedbeds’ (Felsenstein, 1994);

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¹ The term ‘entrepreneurial agency’ is preferred to entrepreneurs because, firstly, it does not exclude the possibility of more than one individual being involved in developing and launching a new venture (e.g., entrepreneurial teams) and, secondly, because entrepreneurial agency does not exclude the use of potential synergy and complementary skills between individual members of an entrepreneurial team.

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<table>
<thead>
<tr>
<th>Real Estate</th>
<th>Collaboration</th>
<th>Business Development</th>
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<tbody>
<tr>
<td>For-profit property development incubators</td>
<td>Non-profit development corporation incubators</td>
<td>For-profit collaborative incubators</td>
</tr>
<tr>
<td>Real estate appreciation</td>
<td>Job creation and enhancing of the entrepreneurial climate</td>
<td>Capitalize collaborative and symbiotic potentials</td>
</tr>
<tr>
<td>Sell proprietary services to tenants</td>
<td>Regional/area development</td>
<td>Network development and nurture</td>
</tr>
<tr>
<td>No interorg. collaboration</td>
<td>Interorg. Collaboration (multi stakeholder collaboration)</td>
<td>Firm-firm collaboration</td>
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Fig. 1. The BI continuum.
‘Industrial Parks’ (Autio and Klofsten, 1998), ‘Innovation Centers’ (Campbell, 1989), ‘Technopoles’ (Castells and Hall, 1994), and ‘Networked Incubators’ (Hansen et al., 2000). In other words, the ‘wonder child’ has many names. Thus, some incubators have been established to accelerate regional economic development and to help capitalize investment opportunity, while others have been established for the purpose of commercialising academic research, typically by bringing small, high-tech firms into contact with high-tech university campuses.

These all reflect different aspects of the overall objective of the BI, i.e., to provide some degree of supporting infrastructure to compensate for perceived failures or imperfections in the market mechanism.

The American National Business Incubation Association (www.nbia.org) defines a BI as “an economic development tool designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services”. According to Sherman and Chappell (1998), these support services include assistance in developing business and marketing plans, building management teams, and obtaining capital and access to a range of other more specialized professional services. They also provide flexible space, shared equipment and administrative services.

An interesting feature of BIs is their potential for creating and exploiting synergy. The combination of different resources, services, and skills is thought to create a synergy for incubatees. This means that the incubator becomes more than just a physical arrangement with a specific geographical location where a new venture can minimize start-up costs by accessing affordable space, shared services, and business assistance (Allen and Rahman, 1985).

Incubators typically seek to provide a nurturing business environment by actively ensuring that start-up firms get the resources, services, and assistance they need. These resources are often a luxury that new ventures lack or cannot afford yet. In this sense, incubators try to address many of the failures of the market: information costs, lack of services and business assistance, and financing. However, most incubators limit how long a new venture can stay in the facility and are in most cases restricted to new ventures only.

The overall aim of BIs is to leverage entrepreneurial talent. This means that the primary driver of new business ventures is neither the availability of funds nor the rate of technological advance but entrepreneurial agency. Incubators seek to maximize the potential of entrepreneurial agency by providing entrepreneurial actors with services and support that complement their existing talents and resources, which in turn is meant to enable them to expand their potential. In other words, incubators can be seen as a planned or deliberate linkage between entrepreneurial agency and the commercialisation process.

The resources and opportunities offered by incubators can be summarized and elaborated as indicated in Table 1:

As can be seen from Table 1, resources and opportunities can be divided into tangible or intangible. Tangible resources include the physical environment, office and communication

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2 Typically, the period lasts between 2 and 5 years.
services, business services, facilities and equipment, and financing. Intangible opportunities or resources include being placed in an environment of peers, the possibility to obtain legitimacy, social inputs, and psychological support.

3.1. Incubator types

Attempts have been made to classify incubator types (Hulsink and Elfring, 2001). This is not as easy as it sounds, however, inasmuch as no two incubators are exactly alike. Although the general goal of incubators is to develop firms and stimulate entrepreneurship, different incubators have different priorities. Even among incubators of similar models, there are differences between their operations and goals.

As BIs really began to take root in the early 1980s, two broad strategies emerged (Smilor and Gill, 1986). One approach was to renovate older or vacant buildings and lease space relatively cheaply. This strategy focused more on giving entrepreneurial actors access to space than on building up companies, e.g., by expanding operations, personnel, and markets. Here, success was defined in terms of leased space and incubatees’ ability to meet monthly expenses.

The second strategy was a more conscious attempt to foster new ventures and continued growth for newly established firms (ibid.). In other words, to leverage resources to help companies grow. With this strategy, some incubators sought an equity position in tenant companies. Although providing space was still important, the main focus was on developing firms. Success here was defined in terms of expansion and the ability of tenant companies to eventually stand on their own.

These two broad strategies can be linked to a continuum perspective. To further the understanding of some of the differences between the various incubator frameworks, Allen and McCluskey (1990) have proposed a continuum model consisting of four organizational ideal types of incubators, each of which represents a slightly different focus for incubator development (see Fig. 1) and which we have modified by adding a fifth type. Here, incubators deviating from these archetypes are referred to as ‘hybrids’.
However, the BI continuum focuses traditionally on economic value. As can also be seen from Fig. 1, at one end of the continuum, the BI functions as a real estate development operation, while at the other end, it functions as an enterprise development programme. These are two very different broad strategies, where the first is similar to the strategy of giving entrepreneurial actors access to space and the second is similar to the strategy of building companies. However, as we have suggested, value is also added in the form of collaboration and internal network activities.

The opportunities (as can be seen from Fig. 1) offered by the different incubators are often connected to their specific mission and goal. For example, the for-profit seed capital incubators, with the explicit goal to capitalize investment opportunities, help their tenants with financing issues. These incubators are often privately sponsored, organized, and managed by private corporations. Their main goal is often to make profit and, in some cases, to make contributions to the community. Being a business, however, the goal most often is to make profit. The academic incubators, also called science parks, research parks, or technology parks, are related to universities. The main goal of university-related incubators is to transform research and development findings into new products or technologies, that is, they are primarily interested in development as an end in itself, rather than nurturing and developing entrepreneurial talent, companies, and profits, as is the case in other types of incubators.

The for-profit collaborative incubators, here called networked incubators, are explicitly based on a mutual recognition of the value of collaboration as one of the most important features of the incubator. The nonprofit development corporation incubators can be both publicly sponsored or nonprofits-sponsored. The main objective of the former often is job creation, while the latter often focus mainly on area development (Allen and McCluskey, 1990; Kuratko and LaFollette, 1987). As regards this macro perspective, several studies have suggested that business incubation is an effective business development tool, which requires modest investment and provides an excellent return on investment to the regional economy (Markley and McNamara, 1995; Sherman and Chappell, 1998; Smilor, 1987).

In the literature, BIs differ in their purpose, organizational structure, operating policy, and institutional affiliation. BIs have been used to help newly founded entrepreneurial firms for several decades (OECD, 1999). The interest in incubators as a development tool, however, dates from the late 1970s and early 1980s, a time when the economy was evolving from a reliance on primarily large manufacturing firms to a base of newer or smaller, technology-driven, service-oriented businesses. Technological development opened up new possibilities for entrepreneurial agency and became a serious factor in the creation of jobs. Due to its role in this transformation of the economy, the BI has also been seen as a kind of “change agent” (Campbell, 1989).

As argued in a recent study (Albert et al., 2001), the development of incubators has taken place in two waves: the first during the 1980s and 1990s, which has been characterized as the launch period of a local economic development tool; and the second, called the growth and diversification period, from 2000 up to the present (see Fig. 2).

Despite the relative diversity and conceptual confusion in the literature, the better BIs typically share certain characteristics: (i) they maintain a spirit of entrepreneurship; (ii) they
offer preferred rates and terms from top-tier service providers, enabling member companies to enjoy certain economies of scale; and (iii) they offer access to a network of companies/organized network (Hansen et al., 2000). Some authors have argued that incubated firms have a low failure rate compared with firms “outside” the incubator. Campbell (1989), for example, found that only about one in seven firms entering incubators had discontinued operations.

However, the real efficiency of BIs still remains inconclusive. Put another way, being in a BI does not guarantee success (Lumpkin and Ireland, 1988). In fact, apart from offering a place to set up shop, the value of BIs has recently been seriously questioned (Mian, 1997; Hansen et al., 2000). Moreover, there is contradictory evidence regarding the information flows and knowledge networks resulting from university interaction and the educational level of the entrepreneurial actors, which, research (Felsenstein, 1994) has found, does not translate into innovation per se. However, apart from the disputed efficiency mentioned above, there seems to be little, if any, consensus about which definition of success to use for quality and efficiency measurements.

4. Social capital theory

The theoretical basis of this research is social capital theory\(^3\), which rests on the premise that in addition to purely economics-driven contractual relationships, important socially driven dimensions also need to be taken into account. Researchers from various disciplines

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\(^3\) ‘Social capital theory’ and ‘network theory’ are used synonymously; in the literature, however, social and/or relational contracting are occasionally used interchangeably.
have in recent years increasingly focused on social capital theory, i.e., on interpersonal relationships in social systems (Burt, 1997; Nahapiet and Goshal, 1998; Lin, 2001; Adler and Kwon, 2002; Kenis and Knoke, 2002). Social capital can be seen as resources embedded in a particular social structure, while at the same time being made accessible and mobile by purposive actions (Lin, 2001). Bolino et al. (2002) summarize previous research on social capital by concluding that individuals work together more effectively and efficiently when they know one another, and trust and identify with one another.

Social capital is composed of individual and collective social networks, ties and structures that help the individual get access to information and know-how. Aldrich and Wiedenmayer, (1993), for example, found that social ties connecting entrepreneurial actors to resource providers (e.g., other entrepreneurs and knowledgeable individuals) facilitate the acquisition of resources and the exploitation of opportunities. Social ties can either be strong or weak. In the literature, weak ties have often been associated with idea generation, whereas strong ties tend to be related to problem solving (Leanard-Barton and Sinha, 1993; Henderson and Cockburn, 1994; Eisenhardt and Tabrizi, 1995; Hansen, 1999). Some researchers suggest that weak social ties are more effective means for knowledge sharing. Persons in social networks characterized by weak ties are more likely to gain access to novel information than those in networks characterized exclusively by strong ties (Granovetter, 1973). To collect information and establish business relations, the entrepreneurial actor needs to get in contact with other people who can provide complementary knowledge and resources (Johannisson, 1988; Larson, 1991). These people might be reached directly or indirectly through private or business-related ties.

However, strong social ties based on personal relationships may also play important economic and social roles during entrepreneurial agency. Hu and Korneliussen (1997) showed that personal ties result in improved company performance. Support, knowledge, and complementary resources may be acquired through such social ties, resulting in social cooperation between key players. For example, Johanson and Mattson (1987) and Powell (1990) attribute success in interorganizational relations to sentiments of friendship and the sense of diffusing personal obligations (social contracts) that arise between people involved in exchange relationship.

Interest in understanding the role of social networks can be traced back to the seminal work of Jacobs (1961), who, more than 40 years ago, stressed the importance of ‘social capital’ in relation to the dynamics and variety of modern cities. Blau’s (1964) theory of social exchange addresses some of the dynamics of social interactions when something is exchanged. During a social exchange, one individual typically, and usually voluntarily, provides a benefit (e.g., information, advice, resource access, or other services) to another individual. This places an obligation on the receiving party to reciprocate by providing some benefit in return. Due to the inherent voluntariness of such exchanges, however, the provider cannot be sure that such benefits will automatically be reciprocated. Trust is a key moderating factor during such exchanges. This, however, will not be discussed further here.

We propose that an overall understanding of the social dynamics of the networked incubator needs to take into account both personal and business networks, as well as the
organizational and social environment in which the entrepreneurial process takes place. This implies that there might be other types of social exchanges or bonds between actors, which suggests that entrepreneurial decisions are made in a sociocultural and emotional context rather than exclusively via purely contractual economic relations (Borch, 1994; Starr and MacMillan, 1990). The existence of several ties between two or more actors means that these relationships are dynamic and multiplex (Gattiker and Ulhøi, 2001). Thus, the exchange of advice and/or information, access to resources, etc. can be expected to be influenced by social norms and rules as well as by social structure and individual power. In other words, such activities are influenced by access to and relative position within social networks.

Institutional and societal norms constitute what is here referred to as “collective social capital”, which can either hinder or support the entrepreneurial actor’s efforts to mobilize additional resources for the venture. Staying in a BI or being related to/located at a BI represents social capital, which in turn should help reduce an investor’s perceived risk of a project (Bugliarello, 1998).

Incubates can utilize two kinds of networks: internal and external networks. According to Lyons (2000), these are equally important inasmuch as they both help the incubatee gain access to business networks. Internal networks are particularly useful to social capital building inasmuch as they enable multiple companies to share all kinds of resources. Moreover, as Lyons (2000) stresses, the most important service offered by the incubator is the opportunity for networking among tenant companies, i.e., internal networking.

This also agrees with other findings, which showed that tenants tend to use incubators to facilitate relationships with other incubator residents (Sherman and Chappell, 1998). Lyons (2000) also points out that inasmuch as tenants are all physically located under the same roof, it makes collaboration much more likely. External networks, however, are also crucial to incubates as they link tenants with potential partners, customers, local business, etc. However, these kinds of network activities and relationships are outside the scope of this paper.

Applied to organizations, social capital theory argues that organizations able to establish rich network connections may enjoy significant advantages in meeting organizational goals (Uzzi, 1996). An individual’s social capital consists of all the social relationships and social structures used to achieve his or her goals. Social capital is therefore the result of a dynamic interaction. It becomes “capital” if it is used by actors in concrete situations (Coleman, 1990)—here defined as a set of social relations (social ties) surrounding the actor (here...
referred to as the entrepreneurial actor) and which can be mobilized more or less consciously when needed.

As documented by Lyons (2000), most networks seem to be informal (that is, they are not based on contractual relationships). In her study of business ventures in the same region, Birley (2000) found similar indications\(^5\). Formal sources were hardly used at all—entrepreneurial actors mainly relying on networks of informal contacts to help build their companies. This is an interesting observation inasmuch as informal networks cannot be controlled or arranged by incubator managers as can formal networks.

Social capital is increasingly perceived as important in terms of business networks (Lyons, 2000; Tötterman and Sten, 2002). Some studies, for example, have described how both actors and organizations function in the context of a network (Granovetter, 1985; Gulati, 1998; Powell, 1990). At the heart of social capital are relationships between individuals and organizations based on expectations, obligations (norms), and trust. Recent studies in the biotech sector have also demonstrated the importance of social networks as a source of learning (Powell et al., 1996).

It should not be overlooked, however, that networks are not ‘given’ but created by individuals and their social interactions with other individuals. This means that they are not distinct entities from the goals of the individuals comprising the networks.

By its nature, an incubator may help build social capital. Tenants are given the opportunity to get to know each other and to work together in a variety of ways. This is what makes these incubators “hubs” for networking activities. Within the network, the individual entrepreneurial actor has private concerns as well as economic and social interests. Thus, both the nature and context of social and business relationships are important (Larson and Starr, 1993). It should be emphasized, however, that social capital can be difficult to build and even more difficult to maintain.

The fact that incubatees all operate under one roof makes collaboration much more likely. Collaborative relationships can involve formal or informal partnerships, joint ventures, or (basic) information sharing. However, we know little about the mechanisms that facilitate or hinder networking—whether internal or external networking. Nor do we know much about the nature of networking—do formal or informal networks dominate? Or both? And in what areas? If the informal networks dominate, it could indicate that structure is not as important as interpersonal relations between the tenants (and incubator manager).

By institutionalising networking, incubatees may achieve some benefits inasmuch as networking no longer depends on the personal capital or connections of a few people but can be scaled up as required. However, this can also have the opposite effect if, for example, networking becomes more of a slogan than a reality, i.e., if the incubator squeezes the entrepreneurial drive of the start-ups by taking too much equity and/or imposing stringent rules or if network exploitation or opportunism becomes too dominant. This leads to the overall research question: What is it that facilitates or hinders networking in a networked incubator? More research is needed to account for why and how networks are established,

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\(^5\) This was not a study of incubators but of entrepreneurs in the same area.
how they function, and which mechanisms facilitate or hinder networking. If networks are primarily informal, as found by Lyons (2000), it can be argued that it is not the context that is important but interpersonal relations. How then do interpersonal relationships facilitate or hinder networking? Such knowledge is crucial to future initiatives concerning incubators (artificial or natural).

This study is based on an interpretative methodology that recognizes the importance of social interaction and the socially constructed nature of social reality. Specific outcomes of such interactions cannot be properly described or explained without a detailed knowledge of the subjective logic that led to the institutionalised meanings of the organizations in question. Subjectively meaningful courses of social action must therefore be systematically related to the structures of social interaction in which they were carried out (Reed, 1985). In consequence, much of the terminology of (quantitative) network analysis cannot be imported into this study, as it is based on an ethnographic approach.

This approach is based on the view that social individuals cocreate their reality through participation, experience, and action (Denzin and Lincoln, 1994). As stressed by Tandon (1988), such a methodology produces knowledge based on social actors’ agenda-setting roles, participation in data gathering, and analysing and controlling the use of the outcomes. In summary, the key concepts and definitions applied in this paper are outlined in Table 2.

Bearing this in mind, this research examines the nature of a networked incubator in general and the nature of related network activities (private and business) among firms located in this incubator in particular, including important factors related to these networks. At a more specific level, we have examined firms’ networking over a period of 6 months.

5. Method

The empirical material for this research has been gathered from MG50 (the name of the incubator)—a practical example of what in theory has been referred to as a networked BI (Hansen et al., 2000). MG50 neither lends initial capital nor provides professional business services (as do traditional BIs) but is based on economies of scale, cooperation, and social interaction.
The empirical part of this project is based on ethnographic data gathered in 2002 over a period of approximately 6 months, where, after agreement between the researchers and the incubator director, a researcher typically spent 1 day a week at the incubator (the equivalent of 6–8 h a day). Data was collected in the form of written field notes (a logbook), observations of and participation in meetings and various events (e.g., the introduction of new companies and social events both inside and outside working hours), access to mailing list, and other archival documents. For the sake of confidentiality, none of the individuals from the case is identified by name.

The investigation of network activities (private as well as business-related) was based on the following sources and situations: The business-related network activities were observed during formal business meetings, interactions, and in documents, whereas the informal personal-related network activities were observed during frequent observations in ‘the canteen’, ‘the Friday bar’, the ‘smoking room’, as well as during various social events during the 6-month period of the empirical study.

Observation studies have many advantages. This is the least noticeably intrusive of all research techniques, while the lack of predetermined categories makes the observer free to alter any problems and questions which crop up. This flexibility makes it possible to discover aspects which would otherwise be missed. Observation also has weaknesses, of course, not the least that the observer is forced to rely more on his own perceptions, which can affect validity. Another drawback is the potential lack of reliability—there is always the possibility that the findings are the result of chance. One way of getting around this problem is to observe systematically and repeatedly over varying conditions (Adler and Adler, 1994). Such a design has obvious limits for generalization, of course. Notwithstanding, the value of (exploratory) observation studies lies in their capacity to provide insights through rich detail and to generate hypotheses for further testing.

6. MG50—a networked BI

One of the authors first visited MG50 in the spring 2001, when it consisted of approximately 16 companies, all in the same building. MG50 came into being at the beginning of 1999, when two recently established small companies joined forces and rented the first floor of a building. Very soon, they found out that there were a lot of advantages in sharing the same building, from a shared lunch arrangement and Internet access to cooperation and access to each others’ networks.

In the spring of 1999, the director of one of the companies wrote a report about incubation for a national incubator organization. The report discussed the possibilities of combining the experiences of older companies with the energy, spontaneity, and ideas normally associated with innovative and/or entrepreneurial agency. The report was describing an incubation environment where new business ventures could learn from experienced companies. However, due to poor financial documentation, the report was shelved.
A couple of months later, the two companies were able to rent the rest of the building—1200 m² on five floors. The idea of starting a network of companies now became a reality. The two companies agreed that it was very important for new tenants to share the same attitudes. More specifically, they decided that:

- Sharing knowledge and opportunities must be considered important. They should be colleagues rather than competitors;
- Tenants should not just share the same building but should also want to spend time together in a social way;
- Interesting competencies, visions, and products, and a desire for joint development should be given priority;
- Both experienced and new companies would be invited.

For many of the new tenants, the need for space was directly correlated with their financial situation. To get around this problem, they were given the possibility of renting only as much space as their company could afford. The tenants spent 2 months repairing the building together. According to the director of MG50, this meant that they got to know each other very well. In January 2002, MG50 expanded to the extent that they had to rent the neighbouring building. Today, MG50 houses approximately 50 small companies, most of them high-tech, media, and communications companies. Table 3 presents key factual information about MG50.

Many of the offices are organized as open plan. The typical firm in MG50 has between 3 and 10 employees. When they reach 15–20 employees, they usually move out because the internal culture of the firm becomes more important than the culture of Table 3

<table>
<thead>
<tr>
<th>Key characteristics of MG50</th>
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<tr>
<td><strong>Facts about MG50:</strong></td>
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<tr>
<td>MG50 was founded in 1999.</td>
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<tr>
<td>In its first years, MG50 housed between 12 and 16 companies.</td>
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<td>In January 2002, MG50 expanded and rented a new building with room for more tenants. In March 2003, MG50 consisted of 70 companies.</td>
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<tr>
<td>Most of the companies are high-tech, media, and communications companies.</td>
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<tr>
<td>The typical firm in MG50 has between 3 and 10 employees.</td>
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<tr>
<td>MG50 is not supported by public or private funds. It is owned by a private limited company, which is owned by the companies in the incubator.</td>
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<tr>
<td>A volunteer-based group takes care of joint activities, such as updating web pages, marketing MG50, arranging social gatherings, etc.</td>
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<tr>
<td>Decisions affecting the incubator are made at meetings with representatives from all companies.</td>
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<td>The vision behind the incubator is to practice cooperation in a network.</td>
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<td>Eight companies have left MG50 since 1999. Three left because of growth, the rest left for practical reasons. None have left MG50 because they were dissatisfied.</td>
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<td>Since 1999, MG50 has experienced only two bankruptcies among its companies.</td>
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MG50 is not supported by public or private funds at all. This networked incubator is characterised by:

- a participative and ‘walk-the-talk’ management approach;
- a market-oriented form of networking;
- a strong social component (that is, both social and business networks are regarded as important);
- the prospect of economies of scale;
- flexibility;
- cooperation between the companies (synergy and scale advantages from sharing the same location); and
- the principle of symbiosis (for example, two or more could join forces when attracting larger contracts, based on their mutually complementary skills and competencies).

MG50 is owned by a private limited company, which is owned by the companies in the incubator. Each company owns the amount of space they occupy in the building. The limited company is a service and administration company and has the following functions: (a) to rent office space to the companies in the building, (b) administration, (c) maintenance, and (d) to ensure that new companies move in when old ones move out. MG50 has formed a volunteer-based group to take care of joint activities. Such activities include updating web pages, arranging social gatherings, marketing MG50, etc. This structure makes MG50 very dependent on bottom-up initiatives. Decisions affecting the whole incubator are made at meetings where representatives from all companies are present. As such, MG50 has some of the connotations of a commune.

According to the director of MG50, the basic idea is to practice cooperation in a network. The firms are supposed to borrow and exchange competencies from each other and cooperate in a kind of symbiotic relationship, based on the complementarity of intangible resources available in the incubator.

7. Research findings, discussion, and conclusion

The breadth and depth of network activities are amply illustrated by examples from the field study. Two key types of internal business networks and collaborative approaches have been identified. One type relates to a specific use of in-house business networks in the form of direct collaboration in relation to specific contracts. The other type is informal network activities. A typical example of this is shown in Table 4.

There is room for both new and experienced companies with special knowledge, experience, customers, and networks. The firms have the possibility of outsourcing jobs—either in part or in whole. This gives them a degree of flexibility in their daily planning, which would otherwise be difficult to achieve, and makes it possible for them to avoid overcapacity or competencies that they do not need on a daily basis, and with it, expensive salaries.
Table 4
A typical case of extensive collaboration

A typical case of networking/cooperation between firms in MG50 (the companies A, B, and C are all located in MG50):

About the job:

The customer was a retail chain in Denmark, which wanted to motivate its employees to participate in determining their job satisfaction. The chain wanted to use a CD-ROM to explain the importance of the study. Through video, animations, and scenarios, the CD is meant to help explain why determining employees’ job satisfaction is important for the employees themselves.

Company A had the contract for the job and was in charge of the contact with the customer. This company is an expert in the retail market in Denmark, and in particular, the company has competencies within education strategies for employees. However, company A needed help to make the CD with the video, animations, and scenarios. Companies B and C were also involved in the project.

Company B is owned by a group of journalists, who are experts in texts for video, photos, animations, etc.

Company C designs, develops, and produces solutions for WebPages and flash. The company is an expert on the technical side and designs solutions specific to the customer.

Together, the three companies solved the problem for the customer. They were all doing what they do best to the benefit of the customer.

However, less extensive and mutually binding internal business network activities also take place on a daily basis, as the following typical quotes illustrate: “I’ve just moved in and need a web page for my company—can anyone help me?” “We have a customer who needs a training course on how to make flashes on the web. Is anyone interested or able to recommend a provider?” Furthermore, groups of students from two local universities are also part of the environment. The students do not pay full rent for two reasons: (1) their presence in the environment is sponsored by a Danish bank, and (2) they help out with practical jobs (e.g., reception). The basic idea of including students in the environment is that both students and firms can supply each other with competencies and knowledge.

Various studies have looked at the services that are used the most and are found most useful by tenants. Here, it is necessary to differentiate between the services that are used more or less regularly and those that are the most crucial inasmuch as these will not necessarily be the same. In the studies, services are often divided into (i) shared office services and (ii) business assistance and networks (Mian, 1996). In most incubators, the former will be used daily, while this is not necessarily the case for the latter. However, this does not mean that the latter are not important. Thus, care should be taken when asking tenants about what is important to them. Office services are easy to imitate, business networks are not—they are usually unique.

Existing small businesses can play a critical role in linking entrepreneurial actors to both informal and enterprise support networks (Allen and Rahman, 1985). Campbell (1989) reported that many firms used the incubator as an internal market place. He found that two fifths of the firms having left the incubator had purchased goods or services at least once from other firms in the incubator, and about a quarter had sold to other incubator companies. Half of those that sold to other firms continued to trade with these firms after
they moved from the incubator. Sherman and Chappell (1998), and Markley and McNamara, (1995) found similar results.

Their studies discovered that firms tended to use incubators to facilitate partnerships with other incubator participants. Nearly a quarter of the firms in Sherman’s survey reported that they had a subcontract or coprovider arrangement with another incubator tenant, and one in six reported that they had collaborated with another incubator tenant. Tötterman and Sten (2002) noted in their explorative study that support which is concerned more with financial capital is not crucial to entrepreneurial actors developing a viable business. Favourable rents for space and equipment are important, but incubators should focus more on the development of business networks that would help companies survive in the long run.

As can be seen from the findings above, MG50 has demonstrated a high degree of collaboration. When related to previous experiences, this finding is not yet well documented. However, there is increasing recognition in the literature that the most important factor/service in a successful incubator programme is networking (Ekholm and Haapasalo, 2002; Hansen et al., 2000). Broadly speaking, the fieldwork demonstrated that the tenants of MG50 draw on internal relational social capital in the form of different collaborative activities to varying degrees. Moreover, our observations showed that the mechanisms which facilitate or hinder networking in an incubator can be divided into two main categories: (i) mechanisms connected to individuals and their relations with each other, and (ii) mechanisms related to the construction of the incubator, and with it, the social environment. However, the distinction between the two quickly becomes blurred, making it difficult to distinguish them from each other.

7.1. Mechanisms connected to individuals and their relations with each other (internal network activities)

Tenants in the incubator have different perceptions of networking, ranging from networking with the other firms in MG50 on technical issues (such as firewalls and databases) to alliances between companies to win larger contracts, based on complementary skills and competencies. Expressed in more general terms, networking is used for what might be called “business activities” and “daily problems” (cf. Table 4). Thus, networks can be—and are—understood in many different ways by the tenants. It became clear quite early in the observation studies that the companies in MG50 do not cooperate on “command”. Apparently, there has to be some potential for synergy between the companies before collaboration takes place. Inasmuch as networks in MG50 are established for various reasons, the potential for synergy is, generally speaking, most often translated into complementary skills and competencies. However, synergy must also hold out the promise of leading to something concrete, e.g., supplying additional and/or lacking technical skills, or the formation of joint alliances to win a larger contract.

The distinction between personal and business networks seems to become blurred in a networked incubator, such as MG50. Moreover, many of the relations in MG50 are multiplex and not one-dimensional. Network contacts start either as a business relationship or as a more personal relationship. If two of the tenants in the incubator have a personal relationship, then
very often, they also cooperate with each other. Conversely, if two tenants have a business relationship and have cooperated, they also connect socially with each other.

More specifically, a social connection between the tenants is very important to networking and cooperation. A tenant in MG50 expressed it in the following way when asked why he cooperates a lot with company Z: “It is because of the social aspect, we [i.e., the owner of company Z and I] simply get along very well and talk about all kinds of things.” Thus, networking is to some extent dependent on whether tenants have a (positive) social relation with each other or not. They need to know each other to some degree before they cooperate. Once they get to know each other, trust follows. This condition for cooperation applies both to cooperation in business activities and daily problems. This also indicates that formal contracts are not the only driving force behind networking and cooperation. More important is trust between the tenants inasmuch as trust protects them from opportunistic behaviour.

7.2. Mechanisms related to the construction of MG50

How the incubator is constructed also affects networking activities. Even such a “basic/simple” thing as the physical arrangement of the offices influences the pattern of collaboration. Tenants’ physical location in MG50, i.e., the floor and building they are located in, affects who they get to know and talk to. Tenants on the same floor in the same building naturally get to know each other more quickly than those further away/on another floor. The closer the physical proximity is, the more dense the internal network activities become. Or, as one of the entrepreneurs in MG50 puts it: “When I first entered MG50 and was keen on getting to know who the tenants were, it made perfect sense to me to begin getting in contact with my new ‘neighbours’ by asking what they were doing. The more often I do this [on this floor], the more often I can spot new opportunities to combine the different players [on the floor], while at the same time recognizing that the tenants on this floor have very little contact to other tenants [on other floors] in MG50.”

With regard to networking, another important aspect of the construction of the incubator is the values on which it is based. Both MG50’s director and tenants find it very important for potential tenants to know exactly which values it is based on. In this respect, the non-hierarchical, bottom-up nature of MG50 is crucial and seems to make all tenants want to contribute to the success of the incubator. Indirectly, this is also what provides MG50 with the mechanisms to foster partnerships and collaboration among the tenants/companies.

All the joint activities at MG50 help tenants get to know each other. If all practical and managerial aspects were taken care of by management (web pages, social arrangements, all decisions, etc.), the tenants would basically have no reason to meet and thus to get to know each other. As indicated in Table 5, trust intimately relates to the construction of the incubator. Trust here is defined as confidence in others’ moral integrity or goodwill in dealing with unpredictable issues (Ring and Van de Ven, 1994), and as such, it relates to strong ties. As trust often grows from personal contact over time (Ring and Van de Ven, 1994; Cohen and Prusak, 2002), the construction of MG50 and the values on which it is based help build trust between the tenants. Thus, the special construction of the incubator (compared with the more traditional incubators) makes it more than just an office hotel for the tenants—it is natural, or
Mechanisms connected to individuals and their relations with each other:
- Formal contracts are not the driving force behind networking and cooperation in MG50.
- Trust between the tenants is more important than formal contracts.
- The importance of trust indicates that a social connection between the tenants is very important to networking and cooperation.

Mechanisms related to the construction of the incubator:
- The tenants’ physical location in MG50; that is, the floor and the building in which they are located affect their pattern of collaboration.
- With regard to networking, another important aspect of the construction of the incubator is the values on which it is based. The nonhierarchical, bottom-up nature of MG50 is crucial and seems to make all tenants want to contribute to its success.
- All the joint activities at MG50 help tenants get to know each other, thus affecting the social dimension.
- This indicates that the size of the incubator is not without importance. It is easier for 16 tenants to get to know each other than 50 tenants.

Table 5
Summary of key findings

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at least expected, to engage in the environment. Thus, the construction of MG50 also has a very important role in creating trusts between the tenants and in giving tenants the entrepreneurial drive they need to succeed. Strong tie-based relationships in turn have been found to increase network cohesion and density via trust-generating mechanisms (Coleman, 1988).

A critical aspect in this regard is size. It is easier to get to know 20 tenants than 50. The number of tenants in the incubator seems to pose a potential barrier. The companies which have recently joined MG50 are not automatically integrated into the culture and values of the incubator, and tenants do not seem to be aware of this potential problem. When new tenants move in, they are only given a short introduction to MG50. With more and more tenants, the individual tenant will increasingly face difficulties in perceiving their potential contribution to and benefit from MG50. “Most likely, somebody else is taking care of that” seems to be a common attitude among many of the new tenants. Or, as one of the latecomers puts it: “If I am not involved [in MG50], then I’ll probably soon be focusing primarily on minding my own business.” Thus, the size of the incubator is not without importance. If it grew too big, for example, networking might become more of a slogan than a reality. What this study clearly shows is that as regards networking and cooperation, the social aspects of the incubator cannot be ignored.

Thus, the importance of the social aspects of this particular type of incubator cannot be ignored. This is also reflected in the fact that although the shared office facilities, such as access to the Internet and printers, canteen, and reception, are valued by the tenants, it does not seem to be what makes companies decide to move in. The social aspects seem to play a much more important role, many of the tenants explicitly referring to this when they state their reasons for being in MG50. Tenants who are attracted by the social aspects of MG50 are also more open to its values. In this sense, they are almost socialized into MG50—either straight away or after a period of time. New firms and firms born in MG50 seem to
accept these values more easily when compared with companies that were 4 or 5 years old when they moved in. However, this aspect is difficult to observe and requires further investigation.

The companies in MG50 do not seem to be particularly interested in learning new competencies from each other. This probably has to do with the type of companies at MG50. While in many respects they are knowledge-intensive, they are also very oriented towards the market and their customers. This can be contrasted with research-based companies, which are usually connected with science parks. For many of the companies in MG50, it seems to make more sense to buy or borrow the competencies they need rather than learn them from scratch themselves. This is also illustrated by the case described above (cf. Table 4). So despite the fact that many of the companies in MG50 operate within the same industry, their core competencies are far from alike. Below, we have summarized the key findings.

8. Conclusion and implications

An entrepreneurial actor’s social capital is constituted by all the social relationships and social structures that can be used to achieve his or her goals. Individual social capital is constituted by the set of social relations (social ties) surrounding the entrepreneurial actor in the incubator which can be mobilized when needed or when an opportunity arises. Access to collective social capital, for example, via a BI in general or a networked incubator in particular, seems to give rise to a particular set of social and economic opportunities.

The theory on BIs is still in its youth. However, this study has demonstrated several links between the empirical observations and the theory on BIs and social networks. BI theory argues that incubator environments serve to offer financial, human, and social capital in the form of, for example, managerial and legal know-how to the start-up (Mian, 1997). We take this a bit further and claim that BIs can be seen as attempts to address market failures and the problem of a three-dimensional liability of newness: one dimension relates to administrative support; the second dimension relates to age and related lack of visibility on the market [this is a problem which an incubator—if it has become well known and accepted—might, to some extent, compensate for (via the brand, networks, etc., of the incubator)]; and the third relates to being on your own versus being in a ‘community’ of peers.

Our findings suggest that incubators address these market failures and liabilities of newness in varying degrees. In the case of MG50, we have demonstrated that network theory and social capital theory can to a large extent account for the social and business activities taking place, although these activities apparently follow the same rules as similar activities outside an incubator. Put another way, the case has shown that it is possible to increase the network element in a BI. However, despite the strongest mission statements on this issue, the physical settings and the willingness to invest in social activities remain important.

We have noted that there were no efforts from the BI to group the firms according to complementary competencies, agreeing well with the reported finding that the tenants are not
primarily interested in learning and/or in copying skills from one another but more to make use of symbiotic potentials, i.e., buying the competencies they lack or outsourcing jobs. At this point, the present configuration of tenants’ skills and competencies suggests that the incubates should not be seen (or perceived by themselves) as direct competitors. Rather, it seems fair to conclude that the principle of symbiosis or mutual complementarity has been the guiding principle. Our study also finds that close physical proximity, e.g., being located on the same floor, plays a vital role in networking and this cannot be compensated for by explicit mission statements.

Moreover, the implicit hope of the MG50 management is that networking could easily be institutionalised for the benefit of the free-rider or costless way for newcomers. Finally, there is evidence to show that the impact of physical arrangements can hinder or facilitate such networks in the same way, regardless of how strong the mission statement is.

Nurturing social capital needs some kind of investment. This field study has shown that some of the primary costs are paid for in the form of time invested in social activities and ‘small talk’. Put another way, new firms which do not invest much time and effort in social activities also tend not to collaborate very much. With regard to the risk issue, the present configuration of firms does not allow for much direct interfirm competition, so collaboration via internal business networks is not dangerous from a competitive point of view. The risk here is that the inviting firm will go outside the incubator if an invitation to collaborate with another incubator firm does not work out. With regard to the point about not necessarily always being positive about access to social capital, we have not come across any finding that supports such a proposition.

Researchers, business consultants, managers, and public decision makers in the area have examined and/or discussed BIs from a traditional top-down planning approach. This means that there has not been much focus on the role of social interactions. Much research on incubators can be characterized as primarily descriptive and atheoretical, focusing primarily on and/or analysing the efficiency and services provided by these institutions. Moreover, a precise definition of the phenomenon has been frustrated by the practice of marketing BIs under different labels sometimes synonymously but sometimes also as somewhat different things.

The immanent objective of MG50, as we have interpreted it, i.e., to institutionalise networking to achieve scalability, seems to be limited by how big and diverse (with respect to values and experiences) such environments can become, while at the same time maintaining the original objectives and advantages of collectivism. However, despite the size and rapid growth of this incubator, the basic bottom-up philosophy has so far remained intact because all members still manage to contribute to the collective. The danger is, however, that continued success relies on a minimum degree of altruism and collectivism, which, in economic crises and/or periods of rapid growth and diversity, cannot be taken for granted. Furthermore, as the incubator continues to grow, it may be increasingly difficult to preserve the cognitive dimension of its network activities, i.e., the extent to which the tenants keep sharing a common perspective and understanding of MG50’s network philosophy.

An interesting feature of this networked incubator is that the participants do not differentiate between types of networks—business or social—as is normally the case in other
settings. The decisive criterion for engaging in business networking is complementarity of skills, e.g., where two or more companies join forces to make joint bids.

Last but not least, a few words on the economies of scale and scope of this networked incubator are given. In this case, economies of scope are an important feature, whereas economies of scale are not important in the usual sense of resulting from growth but only because the sum of the networked incubator’s business enables cheaper and more effective technologies and/or routines to be shared, i.e., those with scale economies.

8.1. Implications for researchers

Understanding the rules and mechanisms of such organizational constructions requires various methodological approaches. Relying solely on a structured approach will make it hard to investigate the dynamics and multiplexity in the pattern of social activity; this requires a participatory approach which only regular stays over a longer period of time make possible.

The standard textbook approach assumes that entrepreneurs are individuals with a special innate ability and desire to start a new business. However, this ignores the fact that more and more new ventures are the result of a team effort between two or more entrepreneurial actors. In the traditional approach, BIs are normally portrayed as a top-down construction managed by a professional incubator management. Although this may often be the case, a new and very different approach to incubators has been discovered and analysed here.

Research on entrepreneurial activity and facilities, BIs, skills, and social networks is important. However, researchers should realize that no one model can account for the complex social dynamics at work, nor can studies, such as this, present a universal solution. Due attention will have to be given to the specific context and circumstances.

The internal and external network categories used in this study could be critically compared to a venture outside a networked incubator. These also have internal and external networks. How do they differ? What are the disadvantages compared with networked incubator tenants and in the type and/or use of the ties?

Future researchers focusing on BIs in general and on networked incubators in particular must pay more attention to these factors and should avoid the trap of methodological and theoretical fundamentalism, which can easily lead to a too narrow and/or simplistic approach to such a complex phenomenon as networked incubating.

8.2. Practical implications

Entrepreneurial actors in general could benefit from being more aware of the role and importance of social networks during the process of establishing a new venture, including how they can improve their rather limited insight into the actual constituents of their networks. Entrepreneurial actors in incubators and in networked incubators in particular should be made explicitly aware of this before joining such arrangements. Networks are crucial to entrepreneurial actors. Thus, the ability to connect up to strategically important clusters of networks is a critical managerial skill. Such networks can give entrepreneurial
actors the necessary legitimacy, skills, and resources needed when launching a new venture.

Entrepreneurial actors have to recognize that the relationships between the different actors in a network are multiplex and dynamic. Such relationships are based on social norms and values, social structures, and power. Disregarding these may effectively block the relative success of such relationships. In networked incubators in particular, entrepreneurial actors will have to realize and accept that the line of demarcation between ‘private’ and ‘business’ will become increasingly blurred.

From a managerial point of view, i.e., with regard to both the individual venture and the management of BIs, this calls for other skills than traditional administrative and managerial skills, i.e., collaborative and networking skills, which in turn has implications for educators of future entrepreneurial actors. Finally, the MG50 model seriously addresses the problems of traditional incubators, as also pointed out by Allen and McCluskey (1990) inasmuch as entrepreneurs typically do not rate their services very highly.

8.3. Implications for other decision makers

The political attractiveness of encouraging new business ventures in general and initiatives, such as BIs in particular, has gathered momentum, but unless the importance of social networks is addressed, it may be difficult to realize their full potential.

This research has identified a new BI. This in turn has some interesting political implications. The MG50 model investigated here is driven by a bottom-up approach, where the new ventures themselves have developed and managed the incubator. From a policy point of view, the model differs from the traditional top-down approach, which calls for new ideas on how public agencies can support such initiatives most effectively.

Acknowledgements

The authors would like to thank the Danish Social Science Research Council and the Aarhus School of Business for funding this project. However, the contents of this article do not in any way reflect the opinions of either institution. The authors are also grateful for the instructive and helpful feedback from two anonymous reviewers, as well as some very constructive and useful comments and suggestions from Phil Phan, John Howells, and Henning Madsen. The usual disclaimers apply.

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