



RECOMMENDATIONS

Metrics and Milestones For Successful Incubator Development

By Impact Network Pakistan



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Executive Summary:

Business Incubators can be sound platforms to bring about economic development in any economy. They help mitigate several avoidable risks in an early stage start-up thereby increasing the rate of success of start-ups as well the time taken to gain traction. Incubators are not a uniform beast and can and should be categorized. **Categorization** enables us to identify the unique characteristics, success factors for each incubator model thereby enabling propagation of successful models appropriate under different conditions. Development of incubators can be systematized with **milestone driven indicators of progress** and predictable outcomes. However, the key challenge is lack of nationally accepted metrics and milestones that are relevant to the different kinds of incubator models.

To arrive at a consensus regarding impact metrics for incubators, Impact Network conducted three sessions with 16 incubators from the country. As a result of these sessions, Impact Network has contextualized international best practices and metrics for use in Pakistan. We also offer a set of recommendations for further consideration by all stakeholders.

Key recommendations:

1. We strongly advocate that in the near term, the **framework** illustrated in this document be used to help institute a nationally accepted set of **metrics and milestones for incubators** in Pakistan.
2. We also advocate that the funding organizations implement these in both their selection of the host partner but also to track, measure progress and to reward success. Some of the recommendations in the document will call for **policy review** and modifications.



Section I

What, Why & How

1. Business Incubators: Background & Context


Historical context: 2006 data published by National Business Incubation Association (NBIA), USA estimates that there are over 7000 incubators around the world. The concept of providing business assistance services to early-stage companies in shared facilities started to emerge in the USA in the late 70s and grew more rapidly during the 1980s. In the 2000s, business incubators have been rapidly adopted by many nations of the world including Brazil, England, Australia, New Zealand, China, Korea, India and others.

In Pakistan: In the recent decade, as in several parts of the developed and developing world, the concept of business incubator has taken root in Pakistan. The first incubator was set up in 2005 at National University of Science and Technology. Later, after 2012, a host of other incubators sprung up across the country. This mushroom growth was facilitated by the Higher Education Commission of Pakistan who, in accordance with its commitment to promoting sustainable economic growth and building a knowledge economy, started facilitating universities to establish Offices of Research, Innovation and Commercialization (ORICs) in 2010. One of the objectives of ORICs was to open up Business Incubation Centers at universities to foster the growth of new enterprises. As a result, many incubators were set up in universities across the country. This is in addition to the incubators and accelerators established by government, private sector and foreign donor agencies¹. Ignite - National Technology Fund, with support of Ministry of Information Technology, Pakistan, has also opened up five large business incubation centers in all federal and provincial capitals through various executing agencies.

Like elsewhere in the world but more so in Pakistan, the industry itself is nascent and still in the mode of experimentation. However, early look at the research studies indicates that success has been limited with a very small number of incubators demonstrating effective output². This is particularly important as Pakistan's current Minister of Finance puts a stronger emphasis on economic growth in the country through innovation and entrepreneurship. Knowledge and

¹ Anwar, Fariha et al. Beyond The Buzz: A Deep Dive Into Pakistan's Startup Ecosystem. Social Innovation Lab, 2018.

² Anwar, Fariha et al. Beyond The Buzz: A Deep Dive Into Pakistan's Startup Ecosystem. Social Innovation Lab, 2018.



understanding of successful development would be paramount to enable impact from the spending of these public funds.


Impact Measurement of Business Incubators: It is of interest to note the accountability model that some countries have come up with to evaluate the progress and outcome of their incubators. Sweden, for example, have numerous incubators spread throughout the country, most of which are publicly funded. One of the prerequisites for giving money to incubators in Sweden is to receive data in return. All publicly funded incubators are required, on a bi-annual basis, to submit a detailed account of all the activity happening in its startups to ALMI Företagspartner, an organization that pools the information on a country basis. Data collected goes beyond employees and revenues to include new employment demography and academic preparation, third party subcontracting services, taxes paid, new funding received, etc. In this way, the government has an updated record of its impact through grants and is able to calculate a rough return on investment of each incubator funded³.

In India too, National Entrepreneurship Network (NEN), a not-for-profit organization dedicated to fostering entrepreneurship, presented a set of recommendations for evolving national milestones and metrics for business incubators to the Government of India in 2013. The recommendations were based on international best practices, particularly Israel and New Zealand. Some of these recommendations were incorporated by NITI Aayog (also called National Institution for Transforming India), a policy think tank of the Government of India that supports 50 incubators in the country.

2. Objectives of and Audience for the Document

This document attempts to answer some critical questions regarding performance evaluation of incubators and builds on the recommendation submitted by National Entrepreneurship Network, India (given the vast similarity between the economic and cultural spheres of the two countries). These questions are critical to answer so that the different stakeholders in the industry like funding support organizations both government (e.g. Ignite, HEC.) and non-governmental like corporate groups, Angel and VC groups; Host organization teams including Incubation managers; Entrepreneurship & Incubator support organizations like Impact Network - are better informed and able to **work more systematically and progressively**. This should result in significantly **reducing instances of failure** and **improving outcomes** from incubation.

³ Salido, Eduardo et al. *The Accelerator and Incubator Ecosystem in Europe*. Telefonica, 2013



Also given that maturing an incubator can take several years, it is pertinent to evolve critical early indicators of progress or lack of it, so it informs decision making at all levels.

Key questions to resolve: Given the above, the pressing questions that the incubation industry should look to resolve include:

- Is there a systematic way to categorize Business Incubators?
- What are the indicators of success and development milestones for different categories of incubators?
- What is the implication of the location, networks, expertise of the executive team and the host organization, and the type of startups being incubated, in selecting the right category while establishing business incubators?

Some answers to these questions would not only enable us to record and measure success but more importantly to make reasonably informed decisions on the choice of model when setting up business incubators.

3. Methodology Used to Arrive at the Recommendations

Answering these questions is no mean task and merits research, insights drawn from various experiences of stakeholders in the industry globally and contextually, conversations and debates, and some experimentation in implementation.

To gather the collective wisdom of this still nascent industry, Impact Network conducted three Focus Group Discussions, one each in Lahore, Karachi and Islamabad that were attended by around 40 people from 16 incubators in total. Discussion in these meetings revolved around overarching goals of an incubator, requirements of a business incubator, impact metrics for incubators, and finally, resource sharing between incubators of the same region. Additionally, some desk research was also conducted to take into account the global standards of evaluating incubators' output. The recommendations submitted by NEN to Department of Science and Technology, India, especially served as the founding stone for this document. Lastly, this document builds upon the experience of Impact Network's own management team in the startup and incubation space of Pakistan.

On the basis of this document, we see critical debates that will help us to get to a set of national guidelines, metrics and milestones for incubators in Pakistan, in two key areas:

1. Categorization of incubators
2. Critical indicators of success for startups that different categories of incubators support



Section II

Measurement of Success: Framing the Problem

4. Requirements of a Business Incubator

A Business Incubator is as we defined earlier setup 'to reduce the chances of failure in early stage companies and result in the financial viability and growth of firms that it supports'.

Therefore incubators in Pakistan are setup to create sustainable and strong support infrastructure to enable young inventors and entrepreneurs to find the necessary support and access to resources to build successful startups. The heart of an incubator therefore, is the startup.


Anyone who has worked with or in a startup would recognize that the fundamental support and resources required for an early stage startup would include:

- Potential market opportunity
- value proposition Founding team - passionate, open-minded and able to execute
- Technological or other key differentiating advantage
- A reasonable plan to execute

The value proposition of an incubator, therefore, is derived from how successfully it can develop a robust and relevant support structure to fulfil these fundamental needs of a startup. The NBIA⁴ advises new teams considering setting up incubators "To lay the groundwork for a successful incubation program, incubator developers must first invest time and money in a feasibility study. An effective **feasibility study** will help determine whether the proposed project has a **solid market**, a **sound financial base** and **strong community support** – all critical factors in an incubator success. Once established, model business incubation programs commit to industry best practices such as structuring for financial sustainability, recruiting and appropriately compensating management with company-growing skills, building an effective board of directors, and placing the greatest emphasis on client assistance.

Experts have similarly emphasized **People, Financial sustainability, Start-up support, Structure and Processes**. Since large numbers of incubators get setup on academic campuses where a strong Entrepreneurial ecosystem is not always given; and relevant Networks not so ubiquitous,

⁴ NBIA (National Business Incubation Association), founded in 1985, is a nonprofit organization comprised of business incubator developers and managers, corporate joint venture partners, venture capital investors, and economic development professionals. It has members from 58 nations, mainly from the United States.



there is an additional emphasis on these during the pre and early stages of incubator development.

5. Development Framework for Incubators:

Symbiotic Association of Ecosystem Players

‘Incubation is a group sport’ – and while an incubator may be lead with in an academic/ funding or corporate entity, the activity itself can be brought to fruition by the effective coming together of several sets of people who bring different kinds of expertise relevant to the incubator or its start-ups.


A critical function of the incubator team therefore is to recognize, and be able to symbiotically associate the relevant groups of people in an ongoing and sustainable manner for the incubator and its start-ups to thrive.

Key elements of this association include:

a) Host / Host Organization – initiates, hosts and nurtures the incubator to help it attain full form and maturity. This could be an academic institution or a corporate. The critical role of the host partner is to create mechanisms and linkages between the incubator; experts in different areas who can support start-ups; and funding organizations.

b) Funding organizations – there are 2 kinds of funding organizations that an incubator cares about and will require to build successful relationships with – i) funding institutions that will fund the development of the incubator as an organization e.g. Ignite, HEC, Corporate, Donor agencies like DFID etc. ii) Funding institutions that will help develop ‘Seed fund’ (early stage capital money) for the startups incubated at the incubator e.g. angel investors, venture capitalists etc.

c) Start-up teams – ‘what goes in comes out’, this certainly holds good for the success of an incubator. An incubator has to continually strive to produce more and more successful entrepreneurs. This will require not only that they have a good pre incubation set of support and/or robust selection process. It also calls for strong integration with sources of entrepreneurs (right profile of entrepreneurs for the incubator) to find the best people to incubate. Sources include alumni pool at academic institutes, student teams already working on technology products while on campus, corporate innovators and the entrepreneurs in the community – city, region and/or country. How attractive the incubator is to this community will



depend upon how strong the support for entrepreneurs is and also how visible and engaged the incubator is with this community.

Whether a host body has ready or easy access to potential wannabe entrepreneurs or young startups should be an important consideration for both the host organization and the funding organization in taking the decision on whether or when to start incubation. Having a very high cost (effort, reach and therefore money) to access a pipeline of relevant incubates could be an operational nightmare for the team and could seriously affect the incubator's ability to start off effectively.

d) Community resources: Entrepreneurship is a tough sport and unique in that there is no wrong or right approach. So an incubator can never hope to have all the knowledge, information and skills that its incubated startups will need, in-house. By necessity then the incubator has to strongly tap into the knowledge, skills, and network resources of entrepreneurs, investors, professionals, consultants, service providers, vendors, interns, and others. A critical strength of the incubator lies in its 'usable' expert network – great bunch of people with relevant expertise who are enthusiastic and available to offer regular advice, guidance and create further access to outside resources for the start-ups.

Every incubator has to build relevant resources based on the nature of the incubated startups. For example, it will not be useful for an incubator to have angel experts if the companies that it incubates are largely suitable for debt funding; however, it will be critical to have a strong banking network and relationship particularly those that fund early stage startups.

e) Policy Organizations: In addition to the above that have to work together, Government agencies like Ignite, HEC, Planning Commission, and others also perform the critical role of developing appropriate policies to support economic growth through incubation, its measurement and its funding from public funds.

All of the above are glued together by the incubator team that builds effective policies, organizational processes and programs to enable an incubator to thrive (*see figure 1*).

No matter what the combination of groups that come together to start an incubator it would be necessary for them to mutually evaluate if they are **indeed symbiotic** in nature and can create strong value for each other. Their **goals and incentives** must be **strongly aligned** and clear expectations have to be set upfront to enable success.

Business Incubator - Symbiotic development model

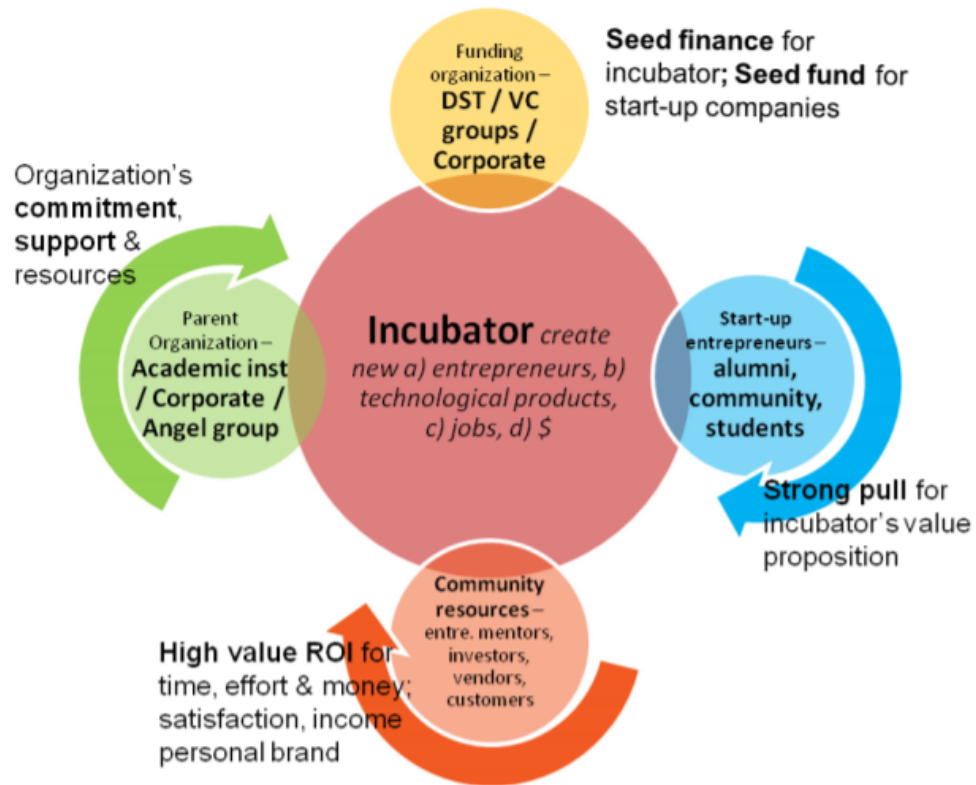



Figure 1

6. Need for measuring

Incubators demand heavy investment both from the funding institution as well as from the host organization. These investments are made with the expectation of long term and ongoing results and impact. Measuring progress, outcomes and impact is therefore necessary to know if there is adequate impact against the investment made.

For the industry, measurement is very important because

- It helps establish that incubators are drivers of economic development
- Enables everyone in the industry to raise the required resource to incubators more easily
- Help reward and showcase real winners
- Creates approaches, best practices and milestones for scaling incubation



For the Funding organization, measurement creates visibility of an effective or otherwise partnership with the host organization. It helps them to track critical developmental milestones as well as take timely decisions regarding further funding or additional support.

For the Host organization, metrics and milestones serve as a guideline for development and provide both motivation and incentives to work towards outcomes and impact. It also helps the host institution to understand what they are committing to and whether or not they are ready to venture into the space.

7. Critical Issues around Measurement

This section helps to frame the current issues around metrics and milestones. It would be foolish to assume that there are no measurement criteria in the Incubation industry in Pakistan. While some metrics are being applied, the real issue as our detailed review indicates lies in 3 key areas:

a. Comparing apples to oranges: Incubators are not all the same kinds. They have different business models and cater to different kinds of target audience. This categorization of incubators based on their location, model and target market is very important.

b. Incubator a complex beast – organizational development separate from outcomes & impact: Incubators are organizational structures that are expected to develop capabilities that will support start-ups at scale and in a sustainable manner. The funding organizations provide seed finance to help operationalize a strong organizational structure that would support new startups in an ongoing manner. When the incubator does not become organizationally sustainable in the defined time period of that funding that is deemed a failure even if some of the companies that it may have supported may go on to be highly successful. That by definition means that every incubator should be evaluated for sound organizational development; this should be separate from metrics on outcomes and long term impact from the incubator.

c. Need for an acceptable set of impact metrics for different kinds of incubators: If we accept that there are different kinds of incubators, we must understand that there may be some variations in success metrics for each kind of incubator. So far the industry has not put out there an accepted set of metrics that are relevant and useful to the different types of incubators. Of course, as indicated above, we would have to do this for a broad set of acceptable categories of incubators. In the absence of these standard metrics, incentives of incubators are not aligned and hence success less than guaranteed.



Section III

Solutions and Recommendations

To satisfactorily address the gaps in measurement, best practices and systematic development of incubators we must start by first understanding the different kinds of incubators and their unique models and characteristics. The basic assumption here is that different kinds of incubators may have different measurement needs.

Key factors that govern the categorization

Incubators around Pakistan can be categorized following two key criteria. These criteria include:

1. Motive of the funding organization and/or Host organization in investing in an incubator
2. Stage of the startups that the incubator intends to incubate

1. Motive for setting up the incubator

The primary motive of setting up an incubator can be for-profit or not-for-profit?

a) Commercial: The primary motive for the Host group investing in and supporting the incubator is to create highest and large financial (deal flow) benefit for the investing community. Typically, therefore the team or company being incubated should have the potential to become investible in a short period of time. Typical example: Incubator/Accelerator run by Angel groups with the intent to help create deal flow by supporting potential high growth start-up teams – the incubator is successful only if it spins out enough investible companies with a potential of several x returns for investees in its group; and does so at the least possible cost both in terms of effort and time spent. Another instance may be of a corporate entity that may setup an incubator to help identify and acquire potential technologies that are beneficial to its own growth. In this case, the incubator's success would depend upon how many such technologies the company is able to successfully convert into commercially successful products or ancillary units it is important to note that such an Accelerator/Incubator itself may be set up as a not-for-profit entity.

b) Not For Profit: Primary motive of this kind of incubator is social return. There may be 2 key reasons why a group that is promoting an incubator may have a not for profit motive:

- i. Altruism may be a primary motive for the Host group to incubate the companies; this philosophy is generally driven either by the Host group's original or CSR mandate or by the Patron's personal drive. It could also be a government's strategy to achieve economic progress.

ii. When incubating social enterprises there may be a stronger focus on solving hard societal problems. While many such social enterprises are equity investible, they are not funded by the traditional equity investors. This is because typically social enterprises may require higher amounts of risk capital and the rate and period of returns may not match traditional equity investors' expectations. Social enterprise funds that invest in such start-ups are a different beast and typically maintain a success measure that includes social impact and financial returns

Typical examples: Most incubators situated at academic institutions explicitly maintain the altruistic view. A typical manifestation of this is in that even in circumstances where there may be the possibility of a higher equity for greater returns for the incubator; it typically chooses to take a smaller equity. One may also find that a Corporate or Individual Patron would invest in and support an incubator with the intent of 'giving back' to society. The Host group or the Patron in such a case looks at this activity as a CSR activity. The selection of incubatee in this type of an incubator is not governed by its need to take equity in the company.

2. Stage of the incubated startups:

Typically, a startup goes through following stages in its life cycle as shown in figure 2:

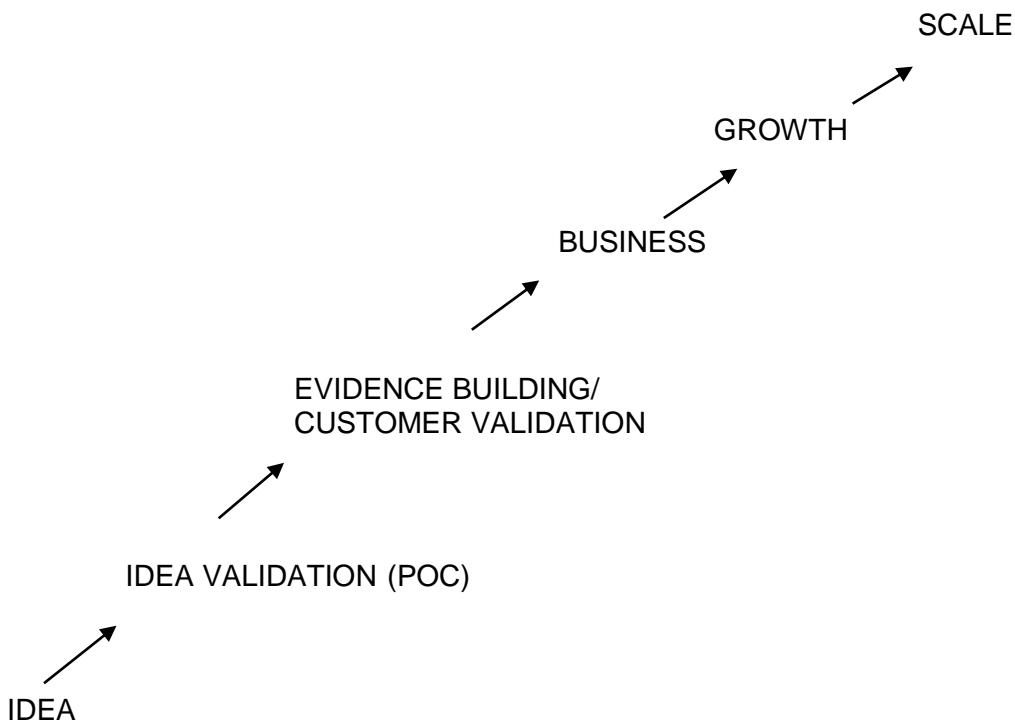



Figure 2



The support required by startups for each of these stages is different. To be effective, an incubator would need to have fair amount of uniformity in the nature of the start-ups that it incubates. This is critical for the incubator to develop or manage the right kind of support mechanism, knowledge and network to successfully incubate their start-ups. This uniformity would be required in terms of industry/sectors but even more importantly in the stage of the companies that the incubator is aiming to incubate.

Based on the stage of companies it incubates, incubation programs can be categorized as follows:

1. Entrepreneurship Development Centers (EDC's)

These centers can help spark the spirit of entrepreneurship in the community and can also serve as hubs of Idea Generation and Product Validation. The Business Incubation Centers (BICs) established at various universities across Pakistan by ORIC can be excellent for this purpose as they have easy access to a large pool of ongoing research and innovation under qualified domain experts. These centers should not only be open to the students of that university, but can also provide Maker Spaces and Prototype Labs to any aspiring entrepreneur who needs help with developing a Minimum Viable Product (MVP).

2. Early-Stage Incubators

Here, the term 'incubators' refer in particular to those organizations who cater to early-stage startups. Entrepreneurs coming out of the above centers can get inducted in these incubators to run their product through customer testing and figure out a business model. These incubators should provide strong support in business development, marketing and sales and should have ties to an angel fund to help kick start the operations. Those who fail to get a market for their product can revisit the Prototype Labs to further iterate and refine their product.

3. Accelerators

Accelerators can focus on growth of the companies who already have a viable business model, a considerable customer base, and demonstrate the potential to grow into high growth companies. Accelerators need to have strong ties with venture capitalists, but more importantly, they need mentors who can work with these startups to scale them up at the national or even international level.

It is also important for these three categories of support organizations to be strongly linked to each other so that entrepreneurs can have a complete value chain enabling them to grow at every stage of their journey. A vague, fragmented ecosystem can be detrimental to the startup community. In Pakistan, although the difference between “early-stage incubators” and “accelerators” is understood in theory, in practice, most organizations take in startups at various different stages⁵. This hinders the development of a more effective incubation program, tailored to meet the needs of the startup. More developed ecosystems around the world practice more specialization of roles between the various ecosystem players to ensure provision of relevant expertise at each step. The [Montreal Startup Ecosystem Canvas](#), developed by the Montreal Founder Institute, Canada, is one poignant example.

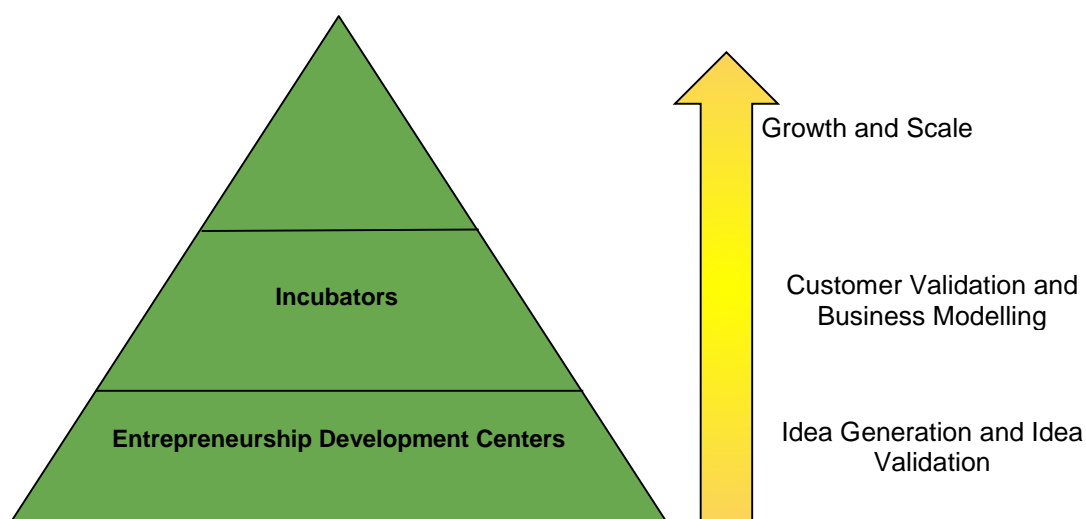


Figure 3 - Startup Support Pyramid


The kind of incubator an organization may decide to setup is also defined by the **Location** of the incubator, the **Core expertise** that the organization has, and its related **sphere of influence**. Here is a closer look at these to understand how they may affect the success of an incubator.

Location:

Location has a direct and strong bearing on the incubator model. Location affects both an incubator’s ability to get the right kind of incubatee deal flow and its ability to easily and adequately support the incubated companies.

Let us take the example **high growth technology backed equity investible** companies. These teams and companies will at all times need a healthy environment of readily accessible

⁵ Anwar, Fariha et al. *Beyond The Buzz: A Deep Dive Into Pakistan's Startup Ecosystem*. Social Innovation Lab, 2018.



technology and global organization building experts, mentors, equity investors – angels and VCs to succeed. If accelerators supporting these companies are located in larger metro cities with ample availability of such an ecosystem, it is more likely that they will be able to successfully engage such expertise. Additionally, for the same reason the incubator’s ability to access incubatee pipeline should also be taken into account. An incubator that does not have such an ecosystem around it may still be able to access the required deal flow and expertise if it has a strong brand and an associated and accessible national network that it can leverage. However, even such incubators would end up with a high cost of acquiring incubatee deal flow and managing support for incubated companies putting unreasonable strain on the incubator’s sustainability model.

Core expertise and Sphere of influence:

An incubator or host organization’s core in-house expertise and immediate sphere of influence has a similar bearing on the choice of the incubator’s model. The host organization must have a core expertise in the relevant area in which it is incubating startups. This should extend to both **soft expertise** and availability of **hardware** and **relevant testing facilities**. Similarly its sphere of influence should extend to a relevant network of both incubatee deal flow and support required for the incubated companies.

One may argue that spheres of influence are expandable, which is true. However, there will be an initial time and therefore cost to building it that must be factored in by the incubator. An incubator that has higher degree of ready access to both incubatee pipeline and to support expertise will be able to kick off its operations much more easily and smoothly.


9. Overall Framework for Measurement

Rationale for measurement:

Measurement clearly is a complex matter. Before we take this up, it is important to remember why measurement is important. A simple and conceivable logic for measurement is provided below:

As per our three FGDs conducted with multiple incubation teams, **incubators** create **entrepreneurs** who in turn **create impact** in the form of **revenue, new jobs, and social impact**.

The framework of measurement for incubators should, therefore, consider the following key factors:



1) Impact in the long term: Not all of the impact metrics mentioned above may apply equally to all kinds of companies and therefore all kinds of incubators. Impact metrics of revenue, jobs, societal impact or shareholder return can only be measured long term because it will take start-up 5-7 years to mature.

2) More immediate Outcomes: In the short term there is still the need to measure results from the activities that an incubator conducts to know if it is effective. This is critical both for continuous course correction but also to enable the right allocation of resources for further development of the incubator.

3) Organizational Development milestones: Behind higher outcomes and ultimately impact lies a successfully developed organization. No matter what the kind of incubator therefore, it must develop sustainably with **strong organizational structures and functions** to enable long term and ongoing outcomes and impact. In the absence of that all the investment in an incubator can come to nothing.

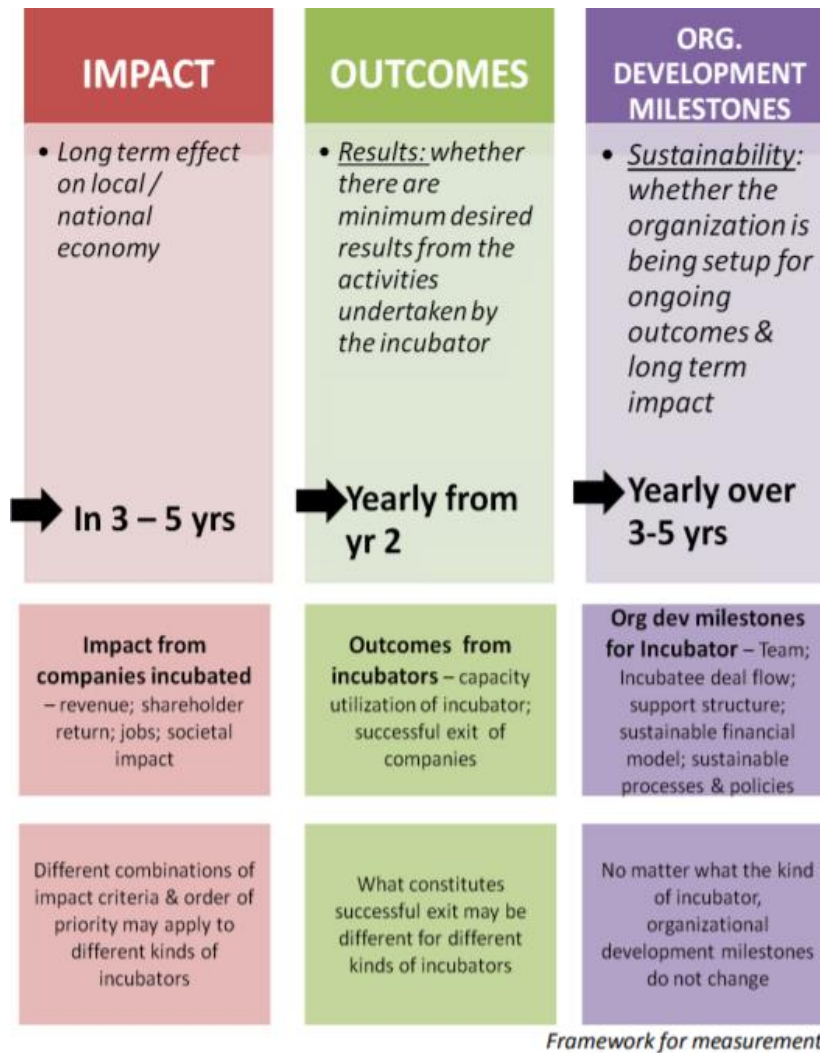


Figure 4

10. Detailed illustration of ‘What to Measure’

a. Incubator as an Organization - Development Milestones

In setting up an incubator, we are essentially building a robust organization capable of sustainably creating high value for entrepreneurs. Fundamental blocks of organization development milestones are related to developing strong:

- Teams to lead the incubator
- Pipeline of incubated startups
- Support for incubated companies
- Organizational processes, policies and systems
- Financial sustainability for incubator

These have to develop in a consistent and timely manner for the incubator to be successful. It is expected that this development will typically take between 4-5 years to go from scratch to maturity and will require different focus, resources and outcomes as the incubator progresses. An overview of the development milestones & resource requirement is provided below for further reference:

Overview - incubator development milestones



Figure 5

b. Outcomes from an incubator:

While economic and social impact of an incubator is long term, Outcomes are immediately measurable and critical to understand if the incubator is making progress. The incubator's primary job is to find the right incubate start-ups and to provide them with the necessary support to help them stabilize and grow. An incubator's ability to get the **required number of start-ups** to incubate is a short term outcome that has a strong bearing on long term impact. Additionally, if the start-ups incubated are **the right kind** there will be **higher percentage of successful exits (graduates)** from that incubator. Of course, what might constitute successful exit for one kind of incubator may be different for another. The incubator would need to define its successful exit factors based on the kind of start-ups that it would incubate.



c. Long term Impact

Incubators, as we have stated before, are setup to enable economic growth. Both jobs and revenue are critical factors to that end. Additionally, since entrepreneurs are essentially “problem solvers”, we have another dimension to consider – impact on the lives of the people in the community as in education, livelihood, quality of living, health, life expectancy and so on.

How none of these - jobs, revenue and social impact – may be useful as active indicators to determine immediate success in the short period of time that an incubator might work with the early stage start-up. An incubator’s immediate focus with a start-up may be on other immediate requirements like developing a product or building an effective team (as in case of Entrepreneurship Development Centers), or getting the first customer out (as in case of early-stage incubators). Measuring long term impact effectively will enable incubators to access more resources from the ecosystem and funding organizations. It will enable them to attract better talented team members and most importantly draw better and better start-ups to them for incubation.

Tracking **jobs, revenue, and societal impact** over a period of 4-6 years of the start-ups life is the ultimate impact. This would include the period of incubation (1.5 – 3 yrs.) and post-incubation (1-3 yrs.) and is very important for every incubator to measure. At the same time, as an industry we should be wary of **comparing impact from one kind of incubators to that of another kind**. In doing so, we can end up **wrongfully disregarding the value** of one against the other.

11. Implementation of the Metrics:

It is clear that milestones need to be tracked & reviewed with mutual focus by the incubator team and the funding organization. This will enable effective decision making at both the incubator and the funding organization to both their benefits.

How?

Luckily for us we are not unique in starting on this journey and there are existing tools for tracking and assessment that we can use for reference. For example NBIA uses a broadly applicable online tool for any business incubator - allows a incubator to see its strengths, gaps and weaknesses; the Icehouse incubators in New Zealand, (supported by the Gov. or NZ) regarded among the top 12 incubators in the world by Forbes, has further successfully adapted the NBIA software tool and measures key milestones for all its funded incubators.

We strongly recommend that we consider setting up a **tracking mechanism and a tool for all national incubators**. We do not have to build from scratch and can with adequate thought, buy-in from strong players, adapt from existing tools to implement for everybody's benefit.

Metrics and Milestones for Successful Business Incubation

1. Organizational Developmental Milestones 2. Outcomes 3. Impact

1. Incubator as an organization - development milestones over 3-5 yrs.

Applicable to all kinds of incubators (with few differences); Table shows typical expected development over 5 years

	Prerequisite	Stage 1 Year 1	Stage 2 Year 2	Stage 3 Year 3
Goals	Assess if Parent Organization is ready	Get Started	Establish operations & raise resources	Mature organization; financially sustainable
PEOPLE / TEAM RESOURCE				
Top Management	- Buy-in & commitment - Clarity in expectations		Advisory board initiated & established	
Executive Management Team	Evangelist Leader: - knowledgeable & experienced - accountable for development - able to spend time	- Professional leader hired - Basic team hired (e.g. Program coordinator)	- Operations team hired - Has written job descriptions for staff and evaluates staff annually through formal reviews.	Specialist team members hired (tech transfer, fund raiser)



BENEFICIARY: ENTREPRENEURS				
Incubated startups		Small cohort incubated (2-3)	5-7 new companies/ year Companies successfully graduating - 80% success rate	Incubator at full capacity Tech. transfer from other Unit labs in the region
Pipeline of incubatees	Small cohort (3-5) pre-incubation process	Pipeline developed	Strong & steady pipeline	Highly competitive entry of startups
SUPPORT SERVICES FOR INCUBATED COMPANIES				
Mentors & Experts	Selection panel initiated	Mentor panel initiated	Wide usable mentoring network (entrepreneurs, investors, professionals)	Wide usable industry network, Expert 'seed funding' panel for startup
Service providers for startups (<i>only for early-stage incubators and accelerators</i>)		Business Model development, legal & accounting	Access to Functional services as required (Market research, Marketing plan, Branding support)	Assistance in team building, Provides training and advisory services on building strategic business partnerships
Access to funding (<i>only for early-stage incubators and accelerators</i>)		Facilitates access to public business development funds	Create access to seed fund with Banks/angels	Establish 'Seed fund' for startups
FINANCIAL SUSTAINABILITY OF INCUBATOR - Critical that incubator covers its costs				
Incubator	Parent org funding support for team, support activities	Multi-year 'Operations fund' raised - stage 1 \$ received (appropriate funds to hire well)	Stage 2 \$ received (funds to build an able & experienced team; initiate marketing and outreach activities; build networks)	Stage 3 \$ confirmed
			multiple revenue generating support services for entrepreneurs in the	Self-generating operational funds



			community (profiles similar to incubated startups)	
ORGANIZATIONAL PROCESSES & POLICIES				
<i>(Relevant to supporting) Startups</i>	Pre-incubation support	<ul style="list-style-type: none"> - Deal flow - Well-defined startup selection criteria - Startups evaluation metrics & review - Has a formal benchmark-based graduation policy 	<ul style="list-style-type: none"> - Start-up funding - Exit strategies 	Complete SOP available
<i>(Relevant to) Incubator's Operations & Key functions</i>	<ul style="list-style-type: none"> - Has a clearly identified mission and program goals - Has a strategic plan to achieve program goals 	<ul style="list-style-type: none"> - Legal status & structure - Team compensation - Maintains a management information system 	<ul style="list-style-type: none"> - Incubator progress metric & review - Incubator funding policy - Effective governance structure 	<ul style="list-style-type: none"> - Complete SOP available - Third-party financial audits
INFRASTRUCTURE				
For Startups	Offices, telecommunications Prototype Labs (<i>in case of EDC's</i>)	Office equipment's, Meeting rooms		


2. Outcomes from the incubator - yearly measurement

Occupancy of the incubator (% occupied)	High - 80% and above
Rate of success (% graduated successfully)	Scale of success would need to be developed to differentiate moderate success from outstanding success

3. Long term Impact on economy from the graduated companies

Primary impact factors different for different kinds of incubators; additionally average scale different for different kinds of companies; Further scale to determine levels of success can be evolved along these factors in consultation with investors, incubator leaders.

	Entrepreneurship Development Centers	Incubators	Accelerators
Post - Incubation 1 - 3 years	<ul style="list-style-type: none"> - New technologies/ innovations introduced in the market - Number of labor force entering into entrepreneurship every year 	Customers user base; cash flow;	Valuation; revenue generation; jobs creation
Post – incubation 4 - 7 years	<ul style="list-style-type: none"> - Social problems solved/livelihoods improved due to innovations introduced in the market 	Revenue growth; valuations; jobs; Total capital raised; social impact created	Revenue growth; valuations; jobs; Total capital raised; No. of startups scaled nationally or internationally; social impact created



12. Key challenges that incubators face to become successful – decision implications for partners, funders & policy makers

Successfully implementing the right metrics and milestones would enable higher motivation, strong incentives and the propagation of knowledge of best practices to result in higher success of incubation as an industry. However, classification of incubators and their metrics helps **highlight some key challenges** that have to be **recognized and dealt with** to ensure higher chances of success. Some of these may require **policy level changes** and others to **adopt best practices** that have worked in some parts of the world; we recommend that these should be examined carefully to enable higher success.


i) Right kind and amounts of funding to meet key milestones:

Developing an incubator is a partnership. Success of an incubator could be compromised at various times, either by handing over too much money or with starving the incubator with too little money. For example, during the first year the most important development is identifying and hiring a strong entrepreneurial leader – to enable the incubator to do so would require the right amounts of operational money and the ability to structure it in a reasonable compensation as the need may be. On the other hand too much money to build physical infrastructure that may not be critical in the beginning has known to divert precious effort and attention to putting ‘buildings and computers’ rather than ‘people’ in place. It also defies the wisdom of starting-up by locking too much capital upfront without any real sense of returns.

Implications for both funder and host institute policies: This is important and merits attention. As an example, if a good leader is core to the incubator’s success, then, any undue restrictions on who one can on-board or at what cost, could derail the effort or end up with lower levels of success later. That decision has to be linked to talent, attitude & skill of the candidate being considered for leading the incubator and whether they can succeed along key deliverables rather than existing organizational or salary structures at the co-locating institute to be really effective. Of course, risks would need to be mitigated by defining clear deliverables in a defined timeframe for the Incubator leader with accountability to the funding organization. However, for the above to happen both the funder and the host organization policies would need to be appropriately aligned so as to enable the above. Many incubators today are constrained by inflexible current policies.

ii) Financial sustainability of the incubator:

This is a critical metric that defines whether or not the incubator will be successful in the long run. While logically, we all understand that the incubator as an organization must become



financially sustainable, it is important to recognize that some types of incubators might be particularly challenged in doing this.

For instance, for-profit corporate-backed incubators focused on high-growth equity investible startups generally take equity in their companies. Given that a significant number of these companies may go on to raise the next round of funding these incubators have a high chance of making some return from the companies irrespective of whether these companies become big commercial successes.


On the other hand, if we look at incubators that are not for profit, supporting early-stage or mid-stage startups, they can be very challenged to get enough revenue to support the incubator and enhance services and support to the incubated start-ups. Implications for the industry in identifying and adopting best practices for higher financial sustainability: while this is a tough challenge, there are possibly best practices some of them functional in other parts of the world that could help overcome these to a large extent. Some of these best practices are mentioned below, and we should come up with more to enable wider applicability to different incubators:

a) Training & mentoring services for community entrepreneurs at the incubator

Incubators of all kinds can and should be encouraged to provide training and mentoring support to entrepreneurs from the community even if they are not incubated with them. This will not only be a source of regular revenue for the incubator but more importantly it enhances the quality of the incubator through i) enhancing the knowledge and skill of the incubator team in handling entrepreneurs' issues ii) creates a potential future pipeline of incubates if they are offering support to pre-venture or early stage venture start-ups. Of course, care has to be taken to ensure that the incubator maintains as much uniformity in the profile of the start-ups that it works with as possible. It would be counter-productive if the incubator incubates Nano technology entrepreneurs but offers training support to small scale entrepreneurs.

b) 'Returnable seed money' to every incubated company

This is a proven best practice at Unltd India, an incubator for social enterprises. Unltd India provides a seed money to the tune of 5 lakhs upfront to its incubated company. The only condition is that once the company is successful and starts generating enough cash flow, it must return that seed money to the incubator. This does 2 things – makes Unltd accountable to provide the best support to enable the company to succeed and makes the company accountable to feed back the seed fund at the incubator to enable the success of its followers. A win-win situation that could prove to be valuable at many incubators including those that are incubating medium growth companies.



As indicated above, there may be other existing best practices that could be adopted to ensure higher success of incubators.

Conclusion:

Concluding from the discussion above, it is clear that the **different categories of incubators require relative performance metrics**. Also, different kinds of incubators deal with different kinds of unique challenges. Categorization would additionally, enable us to identify, recognize and deal with these challenges with appropriate solutions and policies.

When evaluating an incubator, one is looking at what comes out of the incubator in the short term; its long term impact on economy and local community; the scale of its output and organizational stability and growth. These are all inter-linked and ignoring one or the other factor could end up being faulty.

Evaluate Services Provided by Your Incubator to Its Tenants

Score

Evaluate Services Provided by Your Incubator to Its Tenants		Score
Facilities:		
1	Offices	
2	Office equipment	
3	Telecommunications	
4	Laboratory / prototyping / testing equipment	
5	Meeting rooms	
		Sub-total (max=25)
Business Development Services:		
1	Provides coaching / e-coaching on business skill and business model development	
2	Provides business extension services (accounting, legal, secretarial support, etc)	
3	Provides assistance in preparation of business plans	
4	Provides assistance in building the business management team	
5	Organizes business development training programs	
6	Provides milestone-based operational guidance and technical assistance	
7	Provides market research and product marketing assistance	
		Sub-total (max=35)
Assistance in Fund Raising:		
1	Has its own seed investment fund	
2	Facilitates access to public business development funds	
3	Established a network of private investors (business angels , venture capitalists)	
4	Helps tenants prepare their projects to start-up venture financing	
5	Organizes presentations of tenants' projects to prospective investors	
		Sub-total (max=25)
Networking & Building Partnerships:		
1	Established a network of critical business service providers & negotiated special arrangements with them	
2	Provides training and advisory services on building strategic business partnerships	
3	Organizes regular (e.g. weekly / bi-weekly) networking meetings for tenants and investors / prospective business partners	
		Sub-total (max=15)
		Total (max=100)

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