

# POLICY BRIEF

TOWARDS INNOVATIVE, LIVEABLE, AND PROSPEROUS ASIAN MEGACITIES

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## PRIVATIZATION OF BUSINESS INCUBATION: INITIATIVES TO ACHIEVE SUSTAINABILITY AND SUCCESS

### INTRODUCTION

**Business Incubator has been a major driver in the economic development of several countries such as in the United States of America. Majority of the most successful companies in the world such as Apple, Intel, and Google came from a business incubation facility. These companies have started from a simple university project where it was grown into a billion-dollar company employing thousands of workers all over the globe.**

The objective of a business incubation facility is to provide a low-cost / low-risk venue for start-up companies as they try to develop their businesses to full-grown and financially-independent entities. It provides its locators the required business infrastructure to appropriately allocate their limited funds to more crucial requirements of developing their products/ services. The incubation process generally assist start-up companies in administrative functions such finance, marketing, and operations such that they could focus their attention to research and development. It also provides orientation on legal matters such as intellectual property rights and legal contracts. The process also helps the companies in developing its supply chain network to exhaust possible linkages with other businesses. These business networks can contribute to the growth of start-up businesses through partnerships

and collaborations.

### BUSINESS INCUBATION IN THE PHILIPPINES

In the Philippines, business incubation is considered by the government as a means to address poverty and prevent brain drain amongst high-valued professionals such local scientists, engineers, and technology developers. Business incubation promotes the initiative of the government to encourage entrepreneurship amongst young Filipinos to help create high-valued jobs and to raise the standard of living in the country.

In the past, establishing business incubation facilities had been a joint-initiative of the government, academe, and private business entities to nurture innovative ideas into commercially viable products or services which could

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enhance the lives of Filipinos. However, these initiatives have not been successfully implemented within the country. Business incubators typically act as mentors or consultants who advise and guide incubatees in growing their businesses. Despite this, the fall out rate of incubatees has been a major challenge in these initiatives blaming on financial support and attribute factors of the product or services offered.

### ISSUES OF BUSINESS INCUBATION IN THE PHILIPPINES

Business incubation in the Philippines has focused on the growth of start-up businesses as individual entities. These normally involve household businesses which have not established their business models. In previous attempts of the government to collaborate with academe in putting up an incubation facility, start-ups were housed in a government-owned facility to nurture their businesses. They were given assistance in terms of providing the location for their offices as well as for research and development. However, oftentimes, incubatees drop-out of the incubation process or they fail to continue and support their initial success as soon as they have graduated from incubation.

Business incubation administrators attribute these failures to the lack of development in terms of the start-up's business model. This normally results to failure prior to graduation from the incubation process. Incubatees realize that the business model does not work and that customers do not welcome their innovative products or services.

Business incubation also fails because of the type of support given by incubators to their incubatees. Incubatees tend to be dependent to incubators throughout growing their businesses. Incubators shelter their incubatees in terms of their immediate needs. Thus, incubatees fail to sustain their businesses as soon as they join other bigger companies in a different location. On the other hand, maintaining the business incubation facility has also been a challenge because it does not generate sufficient income to support its operations.

### POLICY IMPLICATIONS

*Public-Private Partnership – The Case of UP-Ayala Technology Hub*

UP-Ayala Technology Hub is a government-industry-academe initiative that aims to promote the development and commercialization of new technology to create more income generating activities for the people. It provides network of start-up business with academe (for technology innovation and improvements), venture capitalists, and government agencies.

As Ayala, Inc. joins the collaboration of government and academe, the idea of privatization is introduced in the field of business incubation. Ayala, Inc. being a business entity has created the facility for business incubation. Apart from its thrust of providing a facility for start-ups, they have also provided commercial spaces to generate income for sustaining the technology hub's operations while providing a good venue for industry and academe linkages. This facility has been developed to be conducive to nurture family bonding, group meetings for students and professionals, as well as for establishing working relationships

between start-ups and their employees. As experienced by the incubatees, the location and the environment of the technology hub provides them with an appropriate venue to grow their businesses. This projects stability for their businesses to gain trust from business partners as well as an environment conducive for productivity of their employees. Moreover, the facilities provided by the technology hub help them sustain their businesses as start-ups.

In comparison with the traditional one-phased incubation process, the UP-Ayala Technology Hub follows three major stages in their incubation process. Start-ups would first be housed in the incubator area. After a period of three to four years, the incubatee - if the company becomes successful - would then graduate and move to multi-tenant buildings, where it would enjoy larger office space and can have more opportunities to expand. If the company grows further, it could eventually move to its own building, also in the vicinity of the UP-Ayala Technology Hub. At present, the Technology Hub has available facilities for small, medium and large-scale businesses to accommodate the changing needs of start-up businesses. These stages allow the incubatee to explore and grow their business through time and experience. As soon as they graduate from one level, the technology hub also offers the venue for the next phase of their business. This ensures that start-ups are encouraged to grow their business through obtaining ample amount of support from the incubator. Thus, the full process of moving from start-ups to large-scale businesses would provide the step-by-step

growth in all aspects of the business.

The uniqueness of UP-Ayala Technology Hub incubation facility lies on the design of the incubation process which prevents the incubatees from being dependent on the incubator. Dependency on incubators causes the incubatees to be very relaxed in finding ways to improve their business models and to continuously expand their businesses. The strategy for UP-Ayala Technology Hub has exposed incubatees to real world conditions such as the competitive costs for rent in the incubator facility. The cost of rent varies according to the stage level of the incubatee; the higher the stage level, the higher the relative cost of rent. In this strategy, both parties will benefit because the incubatee acquired the location and the facilities for their businesses at a discounted rate while the incubator would also have sufficient cash flow to finance the cost of its operation. This agreement has been a major factor in the sustainability of incubation facilities in the Philippines. It ensures that start-up businesses could manage the step-by-step growth of their business through realizing the actual operations of an expanding firm. On the other hand, incubators could continuously sustain their operations through incomes made from rent of incubatees. This also expands the operations of incubators in order to help future batches of start-up businesses. The UP-Ayala Technology Hub sustains itself by allowing big and established companies to be located in their facility. This does not only help the incubator maintain their facilities and other financial obligations but it will also allow incubatees to create and or expand their business network which is

crucial for building-up their capacities and capabilities. The incubatees can actually use the strengths of these established companies for developing their business models. Incubatees are given the opportunity to interact with these successful companies and see how they became successful. Moreover, start-ups themselves could interact and exchange experiences in order to pool their knowledge in running their respective operations.

## CONCLUSION

The UP-Ayala Technology Hub is more than just a facility or an office space for the incubatees to start their businesses.

It is strategically located such that the university, private companies and government agencies are situated conveniently. This policy would have a synergic effect for helping start-ups to grow with minimal assistance. Access to expertise, resources, company relations, business permits, intellectual property rights and new technologies are readily available. This will free up more time and resources and focus on other important function of the company. The incubation was also designed to address cultural and psychological aspects of the Filipino culture. The location provided several restaurants and environmental friendly structures that actually attracted

people from different sectors and institutions to go the incubator facility especially the students within the area. According to the current incubatees, the incubation facility is very conducive for learning and for closing deals with business partners because of its relaxed and comfortable environment. This actually impacts the productivity of the companies as well as enhancing their creative minds in developing their business models.

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