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STARTUP INCUBATION AND ACCELERATORS IN AFRICA; ARE START-UPS SCALING UP IN KENYA?

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ABSTRACT

Incubators and accelerators help businesses overcome obstacles such as lack of space, cash, mentoring, and training. While business incubation is not a new idea worldwide, its function in developing and scaling up start-ups remains vacant in Kenya. This study examined whether start-up incubators and accelerators help Kenyan companies grow. This study focused on the importance of accelerators and incubators in Kenya. Kenya is recognized as the second most important innovation cluster in Sub-Saharan Africa. Despite the tremendous influence of incubators and accelerators on the growth of start-ups in Kenya, their long-term sustainability suffers partly due to a weak knowledge-building environment, inadequate marketing research, poor customer service, a lack of adequate personnel training, and inefficient demand forecasting and analysis, all of which is the Covid-19 outbreak has hampered start-up growth, lowering their formation, survival, and progress. Finally, incubators help entrepreneurs succeed by providing them with space, guidance, mentorship, connections to investors, and internet access. To safeguard established start-ups from the Covid-19 outbreak and guarantee them focus on scaling up, the problem may be overcome by assisting new and existing start-ups. Policymakers can alleviate short-term worries by encouraging short-term liquidity and capital, as well as fostering new business prospects. Policies that encourage new businesses and promote entrepreneurial potential may help speed up the recovery and sustain aggregate employment. Advocate for the Kenyan government to alter existing national legislation and enhance coordination among the numerous players in the start-up ecosystem.

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play a very important role in the economy in terms of wealth creation and provision of employment opportunities; however, competition from more established firms poses a great challenge to their existence (Muathe, 2010; Muathe, Wawire, & Ofafa, 2013; Muathe & Muraguri-Makau, 2020). But with business incubation and accelerators, the success of SMEs can be guaranteed, especially at the initial stages of the startup. A startup incubator is a collaborative organization that helps fledgling businesses flourishes. Incubators assist entrepreneurs with overcoming some of the challenges that come with starting a business by offering workspace, initial capital, coaching, and training. Every day, more and more startup companies are being formed, yet only a small number of them survive and make millions. According to a recent study, entrepreneurs who launched their enterprises in business incubators outperform their rivals who go it alone (Amezcua, 2010). According to the National Operation Incubation Association (NBIA, 2018), 85 per cent of businesses that graduated from incubators are still in operation, which is encouraging given that 8 out of 10 startups fail. A startup incubator's only objective is to assist entrepreneurs in growing their businesses. The Batavia Industrial Center, the first business incubator, was established in 1959. The Batavia Industrial Center was established in response to the high unemployment rate in Batavia, NY, and as a solution to repurpose an abandoned industrial complex. Given the history of the business incubator, it's no surprise that it's making a big comeback during the Great Recession.

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Kenya is a rising technological hub in terms of incubation, with a famous example such as NaiLab, Ihub, Vilgro Africa and Gearbox among others at the top of the list of business incubators. According to Ramadhani (2020), Kenya's predicament is typical of Africa, with a high rate of structural unemployment despite a reasonably well-educated populace. The Kenyan government has developed and supported business incubators by providing people with both hard and soft skills needed to approach local and foreign enterprises by injecting energy, passion, and originality into existing businesses. The Kenyan landscape has fostered access to resources and the incorporation of the start-up culture into comparably larger firms to have a far greater effect (Ramadhani, 2020).

A business incubator is a fostering environment for businesses that offer business assistance programs and networking opportunities, and physical infrastructure. They allow enterprises to grow in a regulated atmosphere (Kinoti, Meru, & Struwig, 2016). Pettersen et al. (2015) define it as "a more or less organized organization with an infrastructure meant to provide nature-incubated entrepreneurs with vital resources in pursuit of survival and development." The goal of business incubators is to help businesses survive and mature faster. They provide a good way to access investors, economic development coalitions, and state governments.

Many researchers have expressed an interest in business startups and business incubators. Entrepreneurship has piqued the interest of many people throughout the world as a driver of economic progress, particularly intending to produce wealth. There are a variety of interventions that encourage individuals to become entrepreneurs, not just to start a firm but also to be successful. One of the treatments used is business incubation, which enables individuals starting a firm for the first time to get off to a better start (Voisey, Gornall, Jones, & Thomas, 2012). On the other hand, New enterprises seldom endure the test of time and eventually fail. According to research conducted in 1998 by the Bureau of Labor Statistics Quarterly Census of Employment and Wage, 44 per cent of all startups established; we're in business for four years, and just 31 per cent made it to the seventh year (Everett & Watson,1998).

The notion of business incubators first became popular in the late 1970s and early 1980s. A business incubator has proven to be a highly beneficial instrument for economic growth and has since grown in popularity (Wiggins, & Gibson, 2003). The initial wave of business incubators, which appeared in the 1980s, concentrated mostly on infrastructure. This included rented office space as well as other shared services and resources such as the front office. The initial wave of incubators focused on job creation and real estate development. Businesses profited from the cheaper working spaces given, as well as the economies of scale that came with the startups banding together as a force (Bruneel et al., 2012).

In Kenya, the Industrial and Commercial Development Corporation (ICDC) was paramount for introducing business incubation in the 1960s, intending to provide protected real estate and financial company development services targeted toward local adaptation and industrialization (Mungai, 2015). Kenya's underdevelopment is caused by a lack of capital, a tardy adoption of technology, and a shortage of trained labour to support long-term economic growth and development, according to Ochieng (1992). According to Aduda and Kaane (1999) and Namusonge (1999), the most significant restrictions in Kenya were a lack of ability to identify, seek and apply appropriate technology, a lack of entrepreneurial abilities, and a lack of access to management skills. Namusonge (2004) indicates that to minimize these restrictions, firms needed support services.

How Hubs are Supporting Startups

In recent years, there has been a surge of interest in Sub-Saharan Africa's startup ecosystem. The term "Silicon Savannah" is now extensively used to characterize Nairobi's burgeoning startup ecosystem. Kenya comes out positively due to its geographical advantage, favorable economic reforms, and established start-up environment. Because there is so much buzz around the start-up industry, many investors are lured to it, but in fact, very few start-ups are investment-ready. The expanding requirements and needs of start-ups compel incubators to broaden their offerings. Unlike typical incubators, an Innovation Hub is defined by the concepts of open innovation and collaboration (Chirchietti, 2016)

A Hub fosters an enabling environment in which a community of entrepreneurs may flourish. At the same time, it functions as a hub for the local start-up community, investors, universities, technological firms, and the broader private sector. It aspires to provide a system in which individuals encounter others they would not normally meet through chance. Given the high level of interest in, and enormous sums of money spent in, Hubs by governments, universities, commercial corporations, and other interested parties, not only scholars have questioned the real utility of Hubs. The purpose of this research is to determine the extent to which the assistance provided by the Hubs addresses the issues faced by start-ups in Nairobi, Kenya (Chirchietti, 2016).

Common Hubs Globally

Staqu is a hub that has created a mobile-based platform that provides reverse image search solutions via the use of deep learning and machine learning technology. To produce visual search solutions for a range of e-commerce firms, various sorts of information, such as content, color, shape, and texture, are collected and merged.

Milk Basket hub is an established service that lets customers sign up for daily delivery of milk, eggs, bread, and other needs. Patients may preserve information from wearable trackers, medical records, test results, prescriptions, and other sources using the 1upHealth hub internet platform. This data collection enables doctors to keep track of their patients and health data to make more informed treatment decisions.

Common Hubs in Africa

Silicon Cape Initiative is a hub whose purpose is to encourage the use of technology in a variety of industries. Through its five membership options, the Silicon Cape Initiative provides a variety of perks. These advantages include tech tours, customized access to the tech industry, resource access, and more. Individuals interested in joining the community can choose their chosen membership plan online, register, and pay for their membership. Wennovation Hub is a Nigerian business accelerator and incubator that has catapulted several start-ups to success. Through social spaces, events, shared workplaces, and digital networks, this African tech cluster draws people together (Vibes, n.d.)

Common Hubs in Kenya

Technology-based Incubators are Incubators that contain enterprises with high-value goods, processes, and/or services that are the outcome of scientific research. These incubators help enterprises in biotechnology, informatics, and electronics, among other fields.

Agribusiness Incubator includes crop/livestock ventures to foster entrepreneurial and technological innovation in the field. Social incubators are incubators that encourage "undertakings that start in social initiatives tied to traditional industries that have knowledge in the public domain and that fulfill the need for employment and income as well as improvements in the community's quality of life" (Kenya, 2021).

LITERATURE REVIEW

There are several business incubators across the world. According to Lalkaka (2007), there are around 3,000 business incubators worldwide, with one-third believed to be in North America, one-third projected to be in Europe, and the other one-third distributed globally. Different incubators have implemented a variety of models and service levels. When it comes to innovation in startup businesses and business incubators, emerging markets confront a variety of challenges. Some of these issues include very slow growth rates, lags in production levels, an increase in the older population who are not productive, scores of people losing their jobs regularly, businessmen lacking entrepreneurial visions, difficulty in obtaining financial credit, poor support of business services, a lack of creativity and more copycat ideas, and a lack of venture capitalists, among others. While business incubation is not a new concept globally, whether its role in nurturing and scaling up startups remain void it future role in Kenya cannot be ignored. According to a previous study, incubators should be aided in gaining a long-term competitive advantage to ensure that the necessity for the expansion of the small business sector is addressed (Lose, 2021).

Ramsden and Bennett (2005) assessed the benefits of external assistance to SMEs using objective and subjective measures. They concluded that SMEs valued support mostly for its intangible benefits. Bennett (2007) evaluated the counsel provided to SMEs using several criteria ranging from hard objective effects to soft personal development implications. Erick believes that business incubators, which are often funded by local or national governments, are critical to a company's growth.

Small and medium-sized business development is typically linked to urbanization and the formation of new commercial and industrial areas. Despite the success of business incubators and accelerators in promoting the development of SMEs, the paper concludes that there is still a need to develop a well-organized and well-functioning follow-up system to monitor business activities to encourage the promotion of sustainable development (Ihuoma et al., 2021).

Financial strains, a lack of qualified human resources to run these incubators, a lack of partners to provide services needed at incubating programs, startups that are not too serious in their ambitions, very cautious entrepreneurs who do not trust the incubation process, poor economic infrastructure, a lack of proper networks, and maintaining graduates who have since graduated are some of the challenges that incubators in developing countries face (Eric et al., 2008).

There are two major incubation hub associations in Kenya: Association of Startup and SME enablers of Kenya (ASSEK) and Association of Countrywide Innovation hubs. The Association of Startup and SMEs Enablers of Kenya (ASSEK) is an association that brings together and represent the interests of organizations supporting the development and growth of startups and SMEs for maximum impact of such activities. The association has over 40 members.

The association of countywide innovation hubs is a network of innovation centers located outside of Nairobi in Kenya. The main purpose is to promote the member hubs' activities and programs while also supporting their vision of testing and expanding impactful sustainable firms in Kenya's rural and secondary towns. They presently have 26 members spread throughout 17 Kenyan counties and are growing (Hub, n.d.).

Startup Africa was founded by a group of Kenyans in the United States to create a platform that would create opportunities for Kenyan youth. The devastating PEV of 2007/2008 fueled their resolve, and Start up Africa was born. This is a seed stage investor interested in you and your business. You will be educated, incubated, coached, and connected with other aspiring entrepreneurs (Malit).

Kenya has been ranked the second most important innovation cluster in Sub-Saharan Africa. Kenya has a track record of strong levels of invention, outperforming other lower-middle-income countries such as India, the Republic of Moldova, and Vietnam for the ninth consecutive year, an exceptional performance comparable to that of other lower-middle-income countries such as India, the Republic of Moldova, and Vietnam. Kenya's inventiveness has been connected to the ease with which businesses may access credit and microfinance loans (Cornell University, INSEAD, WIPO, 2019)

RESEARCH METHODOLOGY

This study was a desktop research focusing on the role of Startup Incubation and accelerators in in Kenya. It involved summarizing and collating existing secondary data relevant to startups in Kenya. A previous study on the issue, as well as a current yearly report on the operations of well-known African incubators, was evaluated to enrich this study. This helped the researchers re-generate new insight on startups and accelerators in Kenya

RESEARCH FINDINGS AND DISCUSSION

According to Lalkaka (1990), the incubator's sustainability is a critical sign of success, which may be achieved by wise investments in the facility and facilities, strict monitoring of operating expenses, and creative ways of making money. According to McKee (1992), the term "incubator" was developed in the early days since one of the tenants of the first incubator was a chicken company interested in incubating live chicks.

As per Lalkaka (2001), business incubators provide more than just working space to small enterprises; they also provide secretarial services, support in getting financing, counseling, and other professional business services. As a result, firm startups who operate under the auspices of a business incubator have a mutually beneficial relationship with the incubator. An incubator provides basic aid and services to businesses, particularly those that are just getting started. They can also provide technology help, which the majority of modern enterprises demand.

In addition to office space, an incubator provides additional services such as networking, which is critical to the success of a business effort. Second generation incubators that are managed by a diversified collection of sponsors are more likely to have business-oriented management that is involved in human capital development. The incubator has an impact on economic growth through, among other things, job creation, wealth and income generation, firm development, money for startups obtained from venture capitalists or angel investors, technical commercialization, and community development Chandra and Chao (2011).

Not with standing for the sake of ensuring startups scale disruptively incubators provide further stage fundraising for scaling of startups. In Kenya today labs such as the Adanian Labs are helping invest in startups at pre seed stage and further help them fundraise all the way to the series-A round after a seed raise. This has a direct impact on startups sustainability because many of the two startups that succeed out of the eight that fail have a good grasp on further fundraising for scaling their ventures.

Incubators are a fall back to many of the startups that fail to succeed in the marketplace as earlier mentioned many startups are dimmed not market ready a notion attached to the establishment of overly ambitious startups or in events where there is no good eco-system to ensure co-ordination of the minimum viable product (MVP). In most of these scenarios failing startups have been able to rise up with more traction within the market by evolving to available functioning systems within the marketplace. How incubators help startups reemerge is by offering them real-time data processing of various market variables, thus acting as a consult for these startups which is helping solve the scalability problem of startups making them more sustainable.

Challenges Facing Startup Businesses

The level of innovation at Kenya's technology incubation centers is heavily influenced by ICT infrastructure and expertise. Inadequate technology causes startup enterprises to fail. Startup businesses in Kenya are also impeded by a lack of infrastructure. Thus, ICT infrastructure and ICT skills are the two most important factors influencing creativity in technology incubation centers (Paul & Susan, 2019).

Many people lack the skills to lead these groups, and as a result, their long-term sustainability suffers. Hubs must serve as a knowledge-building environment for the young and sometimes inexperienced techies that visit these locations, educating members on how to code, set up websites, and effectively advertise their work through social media (Dahir). Finding a solid business model is undoubtedly a challenge for Kenyan hubs. This is especially true for hubs in more rural and provincial locations. Kenya's officials should acknowledge and address this issue as they work to build centers around the country (Research, 2017).

Temtime and Pasiri (2004) focused on marketing issues such as inadequate marketing research, poor customer service, a lack of adequate personnel training, and inefficient demand forecasting and analysis, all of which lead to the failure of new start-up businesses. They also claimed that a lack of money might be a direct cause of firm failure, but a lack of managerial skills could be an indirect reason for such failures. (The World Bank, 2018)

Start-ups in the time of Covid-19

In OECD countries, startups are vital, but the Covid-19 epidemic is reducing their formation, making survival harder, and limiting their development. Business registrations have been steadily dropping in recent months, and a lack of new businesses has major ramifications for economic outcomes, notably employment (Kabria & Muathe, 2021).

CONCLUSION

According to the study's findings, incubators have a positive impact on the success of entrepreneurs. According to the findings, incubators assist businesses, particularly in their early phases, by providing them with space, assistance, mentorship, relationships with investors, and internet connectivity. Incubators in Kenya have had a positive impact on and contributed to the country's economic progress. This might be enhanced by improving the incubator model framework, changing present national regulations, and strengthening coordination among the many actors in the start-up ecosystem.

Policy Recommendations

According to research, the majority of incubator managers believe there is a need for a next-generation incubator model. Furthermore, for-profit incubator businesses are more effective at raising capital, and mentored startups outperform non-mentored startups in terms of success. As a result, there is an urgent need to establish a next-generation incubation model to meet the needs of Kenya's massive population as well as the country's developing new-age start-ups from all sectors.

There is a need to support startups by taking steps to help existing start-ups as well as the establishment of new businesses. Policymakers may alleviate short-term concerns by enhancing short-term liquidity and funding availability, but more importantly, by fostering start-ups' ability to capitalize on new business opportunities. Policies that lower entrepreneurship barriers, provide incentives for new ventures, and boost entrepreneurial potential may help to accelerate the recovery and sustain aggregate employment in the long run. Policymakers must also lobby the Kenyan government to improve the incubator model framework, change current national regulations, and strengthen coordination among the many actors in the start-up ecosystem.

What's more, regional integration has a direct impact on startup scaling; therefore, Kenya must develop policies that promote ease of doing business with other countries in the East African region; frictionless cross-border trade is critical, as some startups that rely on economies of scale require these young emerging regional markets to grow sustainably.

Limitations and Future Research Direction

The study was confined to incubators and accelerators in Kenya and didn't incorporate the role of the other actors in the sector and thus this limit generalizability of the study findings to the entire sector as a result, the study's conclusions are only applicable to incubators and accelerators in Kenya. Moreover the current study was a desktop research and the previous data might not have collected for the intention of what it was used in this study and thus there is a need for a study based on primary data to validity these findings. Finally, this study used a cross-sectional analysis whereby it gave a snapshot scenario on the approaches and intended approaches of startup scale up. A longitudinal study would be useful to identify and supplement the usage, relevance and flaws of the measures, in particular the long-term measures of scale up of startup in Kenya.

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