

## **BUSINESS INCUBATORS AS ALLIED IN REDUCING THE TRANSACTION COSTS IN MEXICAN ENTREPRENEURS**

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Received September 2014; accepted November 2014

### **Abstract**

**Purpose-** Strategic alliances are given by voluntary agreement between the parties, and have various forms, means and objectives which exist. In this text, the incubators as potential allies for entrepreneurs in the creation process of the company and as a cause of reduction of transaction costs in the process, where the relationship between the two sides have discussed them generates benefits of various natures. While it is not set as the union of both, if it looks like the relationship and close contact, as a network, which allows the incubator to survive and achieve its objective and entrepreneurial reduce the risk of birth as a company, in addition to build networks with other companies, organizations or institutions and ease of financing, and even the possibility of investors.

**Design/methodology/approach-** The method used for this paper is based on the analyses of official documents of the institutions referred, some studies on entrepreneurship and startups, and finally available data on new firms and institutions as RedJal and INEGI. In addition, incubators and studies on such cases were also reviewed to learn about the experience, services and working methods of these. This focused on observing what happens in Mexico about.

**Findings-** Business incubators in Mexico use to be strategic partners for entrepreneurs that enable the latter to reduce their transaction costs to startup a new company. Business incubators are also important to reduce the risk of death of the company and reduce uncertainty in the process. Also, the services provided, experience and expertise by incubators are important for a growing business arises with the required formality and according to the law, of course protecting its intellectual property and creating an image that pays to create its own reputation.

### **Conceptual Paper**

**Keywords:** Strategic Alliance, transaction costs, entrepreneurship, business incubator

**Reference** to this paper should be made as follows: Vargas-Hernández, J. G., and García Magaña, R.S. (2014). "Business incubators as allied in reducing the transaction costs in Mexican entrepreneurs", *Journal of Entrepreneurship, Business and Economics*, Vol. 2, No. 2, pp. 1–9.

## **Introduction**

*Businesses have a life cycle, just as humans are born, grow, develop and die. But there are companies that live longer than others, given various internal and / or external factors to the organization such as training of managers, experience, competence, product or service and even some innovative factors, lack of resources and regulation which are subject.*

*This document shows business incubators as allies of the entrepreneur, thanks to their services, experience and expertise to help the latter to reduce their transaction costs, thus reducing the uncertainty and risk of a possible early death of the company; this focused on Mexico since the emergence of incubators until their role towards entrepreneurship.*

*Thus, in the following pages will be possible to know the little known business incubators, which are organizations that support entrepreneurs from the business idea to the creation of the company even already being consolidated may accompany the company. Where incubation can be physical, the entrepreneur is in the incubator facilities, or virtual, that is not within the incubator. It also talks about the services they provide and as they are reducing transaction costs in the process.*

## **Defining the problem**

*There are major efforts in Mexico to the creation and success of companies such example are the existence of institutions like National Finance providing credit and training is another example ProMéxico who also helps companies to reach international markets; the efforts of these organizations are important and useful, but not sufficient, at least not for entrepreneurs looking to set up their business.*

*Moreover, it finds the Secretary of Economy (SE), which supports entrepreneurs in the SME Fund (Fondo Pyme). The fact is that access to these resources for the entrepreneur may not be easy for them, and that requires the help of an incubator recognized by the Secretary of Economy (Secretaría de Economía), as part of the requirement to obtain the resource for the use or knowledge is limited or the SME are having trouble making a business plan or project that are required to access various resources of this nature. Moreover, entrepreneurs can find investors, loans with financial institutions or sources other than the range of funds that have government financing institutions; however, for most of these, with the exception of family and friends, requires a project, a business model or business plan that give formality, forms and funds to the entrepreneurship.*

*For these situations, the incubators to undertake value as important allies to start a new business, as they often have important contacts in both government institutions that facilitate government paperwork such as access to information;*

*and also incubators have contacts with capital and investors interested in contributing to the projects arising under the shelter of a business incubator.*

### ***Background of the problem***

*The first incubators of business emerged in Mexico in 1990. These were in Ensenada, Baja California and in Cuernavaca, Morelos, and the first with the Technology Based-Incubator (IEBT) and the second with The Business Centre of Technological Innovation (CEMIT). Two years after it was created the first incubator in Jalisco, hosted by the University of Guadalajara and under the direction of Dr. Juan Villalvazo Naranjo, called Technology – Based Incubator at the University of Guadalajara (IEBT-UdeG) that continues to date under the same name, and classified as intermediate technology incubator.*

*These incubators emerged with the aim of providing space and administrative services to entrepreneurs, besides advice on the different areas of business, including legal. Also the management of government funds and resources and technology transfer. All this to enable the new entrepreneur or existing processes are sometimes complicated by ignorance or issues of time and capital.*

*The National Council for Science and Technology (CONACYT) was an important promoter for creating incubators in Mexico. To do this with the National Business of Technology-Based Incubation Program (PIEBT), which was intended to accompany in creating companies and were a means of modernizing industries along with the dissemination and promotion of technology creation, whether applicable to company or developed by the same. The program lasted six years, from 1992 to 1998 included.*

*Subsequently, the Ministry of Economy (Secretaría de Economía) created the Fund for Small and Medium Enterprises, today SMEs FUND (Fondo PyME). In 2003, which granted temporary economic supports and develops projects for the creation and development of SMEs in Mexico? This being one of the main funds managed by incubators, as this secretariat evaluates and gives recognition, which serves to facilitate the acquisition of these resources. This fund still continues. According to the Ministry of Economy, with data of 2009 (Villalvazo Naranjo, and Becerril 2010) in Mexico there are 500 incubators, out of which 217 focuses on traditional companies, 262 are intermediate and 21 high-tech technology. In total, these incubators contributed to the creation of 24,394 jobs through 6,100 new companies during that year.*

*Finally, on January 11, 2013 came the National Institute of Entrepreneurship (INADEM), part of the Ministry of Economy and which come to give strength to incubators and actions aimed at entrepreneurs and SMEs, tending a goal that encompasses from policy implementation and coordination related to entrepreneurship to promoting innovation and competitiveness that affect the economic development and welfare of Mexican society.*

## **Justification**

According to a study by RSM Bogarin Mexico, called *Entrepreneurship Spirit*, shows that between 2007 and 2011, Mexico has had a rate of entrepreneurship and creating new business of 6.6%, a high figure, much more than that recorded by developed nations such as U.S., Japan, Germany, United States, for which, according to this study was 0.8%. These results shows that Mexicans just do seek to undertake and do, which would be fine if the majority survived the first, as even fifth year; and further, grow and achieve consolidated over time.

Moreover, according to the INEGI (2012), in 2012 were created 1'135, 089 new companies nationwide, of which 20.4% belong to the manufacturing industry, 28.4% commercial and 30.7% to the sector of private non-financial services. From such business, 884.240 died, being 16.7% in manufacturing, 22.6% in the service sector and 22.9%, in commerce and trade the latter being the sector with the highest death, which adds the pitiful 62.2% of total . Thus, it is clear that entrepreneurship is given, but something is missing for success that any new employer expects. What Mexican entrepreneurs need to and their businesses?

It is for this that the present text focuses on to show business incubators as an important strategic partner for entrepreneurs who can facilitate them the way and help reduce the risk of death at an early time. This is because there are statements about these can help significantly to accompanying and guiding the entrepreneur. As Zapata (2011), supports the claim that between 80% and 93% of companies in Mexico die in 5 years, and that companies that were incubated reduce this death by 20%. Similar statement makes the Secretary of Economy (SE) saying that about 80% of incubated companies are successful.

## **Assumption**

*Business incubators are allied strategies to engage and generate more successful companies in Mexico.*

## **Conceptual theoretical framework**

To support the vision of a business incubator as an important ally for entrepreneurs, the analysis is done about the transaction costs that are generated when starting a business, and in which the support of the incubator will be reflected in greater visibility; being the direct impact to the nascent entrepreneur. Recalling that transaction costs are incurred in doing business, which includes seeking information from, buyers, sellers and prices to supply and carry out contract (Eggertsson, 1995).

Such essential costs sometimes performed to minimize uncertainty and risk of trading and, in this case, the starting a business. This in accordance with the arguments of North and Wallis (1986) cited by Eggertsson (1995). These costs are

*transaction that are not directly related to the final good, but are important for development. Examples are insurance, inspectors, office staff, and even monitor the merchandise or other exchange company.*

*For transaction costs, it is important to have an ally to provide information, training, tools and even spaces where several of these costs are reduced by making use of what it offers a business incubator. A business incubator reduces risk, uncertainty and time to start up; having full knowledge of the process, regulations, plus expertise of its members in specific areas that lead to medium and long term in reducing costs.*

*It should highlight the importance of formal relations in the process of undertaking and start up new business. Contracts and agreements are essential for a clear specification of the relationship between the parties, and the secrecy and intellectual property. These are features very important in the relationship of the company with other companies such as, in this case, between the entrepreneur and the business incubator. The first step is precisely to reduce the risk of informal relationships where resources extracted are usually implemented in programs and government funding.*

*Further support to the accompaniment of an incubator gives Williamson (1991) when it includes the theory of transaction costs associated with the efficiency and performance of the organization in order to minimize these costs. This being the main benefits while the aforementioned objectives of incubators to provide training, advice and consultancy to entrepreneurs, which in many cases, it requires in order optimizing its resources.*

*Also, part of the important and essential for the entrepreneur and certainly will involve transaction costs is to generate reputation, which is important for being born and it will come to give permanence to the future. Also for the generation of reputation and cost reduction in this sense, the incubator under its wing and its own formal and consolidated image is the way to provide for the generation of entrepreneurial self; so does the inexperience and bounded rationality to the problems that are presented in the incubator process and it has experience and therefore information to help you better decision.*

*Finally, do not forget what notes Williamson (1981) as the generators of transaction costs, which are the behavior of economic agents participating in the process, bounded rationality and opportunism. Besides the problems belongs to the competitive markets which creates uncertainty, in this case, possibly inexperienced entrepreneur.*

### **Contextual framework**

*If it is assumed the costs of starting a business, according to an study conducted by Doing Business from World Bank, held in 189 countries among which is Mexico, the different sections evaluated are precisely what is of more interest, opening a business. The study mentions that to open a business in Mexico are required six*

days to perform six steps and generating a 19.7% cost per capita (U.S. \$ 9,740) income, being the country at position 41 of the study, below the average for Latin America and the Caribbean, and in some areas, it is also compared below to the average for OECD countries (Banco Mundial, 2014).

**Table 1. Starting a business**

<b>Indicator</b>	<b>México</b>	<b>Latin America and the Caribbean</b>	<b>OCDE</b>
<i>Procedures (number)</i>	6	9	5
<i>Time (days)</i>	6.0	36.1	11.1
<i>Cost (% per capita income)</i>	19.7	33.1	3.6
<i>Requirements of minimum paid capital (% per capita income)</i>	0.0	3.6	10.4

Source: Banco Mundial (2014). *Doing Business*.

Based on the above data, although not directly, it can be observed if an incubator can influence the process for opening the business, it is known that part of its job is counseling, which is legal. It may help that the transaction cost decreases for the opening of a business, given the accompanying counseling and saving time as possible.

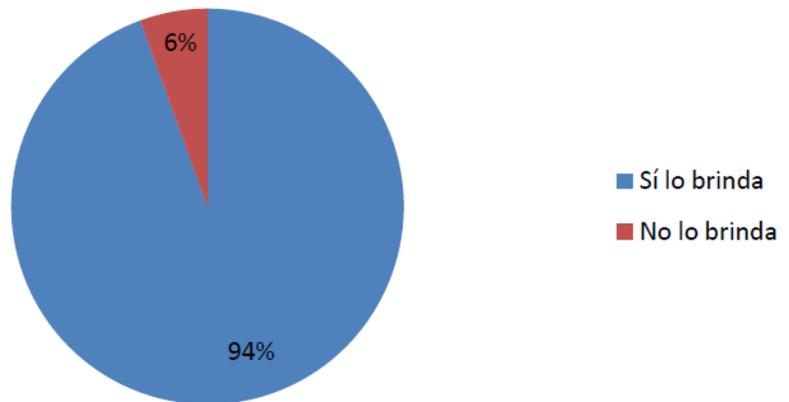
Sure, this is data analysis compared with the experience, contacts and staff that has available the incubator. However, also the legal counsel of the incubator can contribute to the realization of contracts and the protection of intellectual property of the entrepreneur with the Institute of Industrial Property (Instituto Mexicano de Propiedad Industrial IMPI). The consultation from these organizations are often focused to the needs of the entrepreneur, who sometimes does not know this type of actions to protect and formalize its relationships with customers, suppliers, government and at the same competition as in the case of intellectual property.

It has been found that some incubators, for a rent, make it easier for entrepreneurs from one physical space, services as clerk, allow the use of facilities such as meeting rooms and, in the case of specialized incubators some area, the use of equipment and laboratories. In addition, other costs are included in the rent, usually the safety, cleanliness and fixed costs such as electricity, internet and water. All these costs are reduced to a pre-established fee, which also provide the advisory and consulting fees, which are clearly savings to entrepreneurs in transaction costs.

That is to say, with the fact the entrepreneur pays a monthly, usually a fee to be established to initiate relations with the incubator and set out in the agreement they both signed to formalize, time and efforts are avoided and of course, having decrease the costs in starting up and undertaking their business, they would

have to devote all transaction costs focused on the operation and provide certainty as mentioned above.

More in favor of a pro-entrepreneurial incubator relationship, is that the incubator has networks that makes use of everything already mentioned and besides to raise funds for entrepreneurs to start operations. In some cases, also incubators have networking with investors that typically invest in start-ups. Already in more special cases, there are also incubators for financing seed capital to entrepreneurs. This specific function is a core task that gives support to start up a new business. The person or people who are looking for starting up a new business also find difficult to obtain resources because it often involves the formulation of a project or a business plan. Some of the entrepreneurs have the knowledge necessary to create and for them also the incubator provides support in their activities.



**Figure 1.** The incubator provides planning and entrepreneurship  
Source: Villalvazo Naranjo, J. and E. Becerril, M. (2010)

Using as an example the incubators of Jalisco, of the 43 existing in 2010, 94% of them provide services to facilitate the entrepreneurial start up of a business as signaled by Villalvazo Naranjo, and Becerril (2010). Moreover, these researchers also note that these incubators also serves 94% of pre-incubation that virtually refers to the phase of landing the business idea and integrate the business plan. Another important aspect that helps to conclude that the incubators, even with all the services provided for a fee, although most often 89% of services are provided non-profit, as is well shown in their study by Villalvazo Naranjo and Becerril, (2010). Many of the incubators work using funds obtained from the Ministry of Economy (Secretaría de Economía) and SME Fund (Fondo PyMES).

## **Research method**

*The method used for this paper is based on the analyses of official documents of the institutions referred, some studies on entrepreneurship and startups, and finally available data on new firms and institutions as RedJal and INEGI. In addition, incubators and studies on such cases were also reviewed to learn about the experience, services and working methods of these. This focused on observing what happens in Mexico about.*

## **Conclusion**

*Business incubators in Mexico use to be strategic partners for entrepreneurs that enable the latter to reduce their transaction costs to startup a new company. Business incubators are also important to reduce the risk of death of the company and reduce uncertainty in the process. Also, the services provided, experience and expertise by incubators are important for a growing business arises with the required formality and according to the law, of course protecting its intellectual property and creating an image that pays to create its own reputation.*

*Notably incubators are also sources of information, since they know the process of business creation and study what happens in the markets to better serve the entrepreneur. These activities aim to reduce the bounded rationality of the latter because they provide information that will facilitate decision-making and guide to using the most appropriate advice and consultancy. This, coupled with the low cost of housing, facilities for obtaining resources for the entrepreneur and the inclusion of various costs in one installment by incubation concluded that transaction costs are reduced by undertaking significantly.*

*Perhaps the above is the sample that holds to conclude that more than 80% of the incubated companies are successful. As incubators facilitate the process of creating new business and give them specialized and geared to the specific needs of each entrepreneur support. All this is good news for a country eager to grow with a high entrepreneurial spirit, and that only lacks the necessary guidance to achieve its goals, survive the first year, and why not, to grow over time.*

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