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CHALLENGES TO KNOWLEDGE TRANSFER WITHIN A BUSINESS INCUBATOR: THE ROLE OF NETWORKS

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ABSTRACT

Start-ups have been widely recognized as an important contributor to the growth and development of national economies. For instance, in the UK alone it has been reported that start-ups account for more than three million jobs (12% of the country's employment) and contribute 196 billion £ to the country's economic output as measured by gross value added (GVA) (Cebr, 2016). Despite such positive contribution, however, it is well-known in the literature that start-ups face unique challenges which can be summarized by the concepts of liability of newness and smallness (Aldrich and Auster, 1986; Stinchcombe, 1965). More specifically, mentoring, marketing expertise, contact with investors and legal advice are among the issues that start-ups typically face in the early stages of their life cycle. Access to valuable resources is often difficult since co-founders typically lack a vast and heterogeneous pool of people on whom they can rely to overcome such obstacles.

One solution to address some of these obstacles is the establishment of a supportive environment which in the start-up context has often coincided with the creation of business incubators (BI) (Bollingtoft, 2012). Given their role, business incubators have been attracting significant attention in the last decades from both academics and practitioners alike although a single definition of what BIs are is still lacking (Hausberg and Korreck, 2018). According to a recent study, between 2007 and 2013 the number of European accelerators and incubators has increased by nearly 400% (Telefonica, 2013). Their widespread diffusion can be ascribed to four main reasons (Smilor and Gill, 1986). First, incubators are often tied to a university or a corporate therefore benefiting from brand reputation which ultimately leads to a higher credibility of those who reside in them. Second, they allow start-ups to get access to useful knowledge and information which can be useful to shorten start-ups' learning curve. Third, incubators often rely on a wide array of mentors as well as tenants with heterogeneous levels of experience which can help entrepreneurs get quicker access to solutions of the problems they face. Finally, physical proximity within the BI is generally associated with networking which is a crucial activity for any entrepreneur (Rubin *et al.*, 2015). Yet, despite the acknowledgement that BIs play a relevant role for the establishment of ties between entrepreneurs which in turn facilitate knowledge transfer, there is surprisingly limited empirical evidence on how and why networks develop within business incubators (Bollingtoft, 2012), and how in turn they affect knowledge transfer.

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Therefore, the main goal of this study is to identify the drivers of and the obstacles to knowledge tie formation within a business incubator located in Portugal. The premise is that while individuals belong to different entrepreneurial initiatives that identify tasks, objectives, reporting lines and expected patterns of collaboration, much of what allows them to leverage knowledge to run their projects and to generate innovation hinges upon the existence of networks that are facilitated by spatial proximity. Previous research has found that boundary-spanning relationships allow individuals to mobilize knowledge and information more effectively, and to identify possible synergies in the type and nature of knowledge necessary to accomplish the objectives of development and growth of different initiatives (e.g. Tortoriello *et al*., 2012). Following these intuitions, we collected data on knowledge networks by conducting 25 face-to-face interviews with co-founders of start-ups located in the same BI. The interview protocol was designed to gather information about the motivations behind entrepreneurs' decision to interact with other tenants, the content of such interactions as well as any obstacles that they faced while sharing knowledge and information within the BI. This type of interview format gave interviewees more control over the discussion and allowed for more description by the participants (Lindlof and Taylor, 2002). Data were analyzed through an inductive approach (Gioia *et al.*, 2013) following an open coding procedure. An iterative process between theory and evidence led to the identification of specific drivers and obstacles to knowledge tie formation.

The preliminary findings of the study offer some interesting insights on the relationship between networking and knowledge transfer within a BI. In contrast with previous studies highlighting physical co-location as a facilitator of knowledge spill-overs (Monge *et al*., 1985), our data showed that the concentration of start-ups within a geographically constrained space was not a sufficient condition for knowledge sharing ties to be created. Our interviews revealed that several obstacles, both tangible and intangible, were often preventing the possibility to successfully exchange knowledge. A major barrier was represented by the configuration of the building itself. Contrary to the traditional layout of incubators characterized by open spaces and lack of physical barriers, the BI we studied resembled the architectural design of a large corporate building. The majority of start-ups had their own office space with restricted access doors through which entry was possible via a code available only to the start-up's employees. As most of our interviewees revealed, this was a major barrier to communication. Other barriers included the lack of awareness of the activities conducted by other tenants, the size of the incubator, and the lack of time by entrepreneurs to dedicate to networking and knowledge-sharing. Interestingly, culture was also mentioned as a barrier to communication which contrasts with the expectation that entrepreneurs are generally more inclined than other individuals to share ideas openly. Social networks have often been identified as a solution to compensate for communication obstacles (e.g. Reagans and McEvily, 2003). In our setting, both formal and informal networks

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influenced the communication processes within the BI. Formal networks were usually made of dyadic interactions between tenants and were initiated by the BI's management who acted as a connector. However, our data provide evidence that the BI's tenants often initiated ties on an informal basis through a referral from a common acquaintance, a casual meeting in one of the BI's events or while waiting in the queue at the BI's cafeteria. These informal networks often resulted in the formation of small cliques within the BI. More importantly, both formally-initiated and informal networks were instrumental to overcoming knowledge transfer barriers resulting in knowledge transfer of three types: 1) product-related knowledge, 2) business development knowledge (e.g. access to relevant contacts) and 3) administrative knowledge (e.g. information related to legal issues).

Based on the findings above, this study contributes to the growing research on business incubators by exploring how processes of interaction between co-founders shape the ability of these actors to exchange knowledge despite existing impediments within the incubator. The ability to successfully transfer knowledge between individuals has been indicated as a critical issue for several organizational outcomes including an organization's ability to be innovative (Tortoriello and Krackhardt, 2010). In reality, however, the successful exchange of knowledge has proven to be a difficult task. Our study indicates that social networks can be a good solution to overcome the obstacles that incubated firms face when exchanging knowledge. By so doing, this study also contributes to the business incubators literature by adopting a tenant perspective to assess the value of being in an incubator, therefore addressing a recent call to study business incubators not solely from the perspective of incubator managers (Bollingtoft, 2012).

Keywords: Business incubators, start-up, knowledge-sharing, networks.

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