

## **Nonprofit Incubators:**

### **Comparative Models for Nurturing New Third Sector Organizations**

Diane Vinokur-Kaplan and Joseph A. 'Jay' Connor

#### **Introduction**

Many American nonprofit organizations have struggled to be born, to survive, and to grow and thrive during the 1990's. In order to succeed, they, their communities, and various management support organizations have applied various strategies and tactics of cooperation to help insure their futures. As recently noted by Kohm (1997), such tactics of innovative economizing by sharing facility costs and contracting out excess capacity to other nonprofits can result in "improved facilities, more sophisticated technologies, higher-quality management services, more comprehensive employee benefits--and all at reduced or below-market cost" (Kohm, p. 44).

For example, the following figure shows an illustrative list of shared site nonprofit enterprises that have been established relatively recently in the United States to shed costs, gain or retain the local presence of nonprofits, and in some cases, to facilitate co-location and develop synergy between nonprofits of varying sorts.

*See Figure 1 - Examples of Shared Site or Co-Located Nonprofits*

All of these enterprises and their sponsors are dedicated to nurturing nonprofits within their regions or communities by having them benefit from certain economies of scale brought about by co-locating them under one roof and sometimes also through sharing resources. Included within some of these approaches are several experiments in the United States to apply the "small business incubator" tool of economic development to the nurturance of nonprofit organizations. Business incubation is a dynamic, efficient process to foster the growth of young firms, helping them to survive and expand in a safe and supportive haven during the start-up period when they are most vulnerable to failure. Such incubators have been used as a community economic development strategy to help promote creation of new jobs and economic activity.

This paper discusses the definition and the applications of this business incubation model to promote and foster the growth and survival of nonprofit organizations in several communities in the United States of America. We will be relying on the study of one such incubator in our own community, (NEW, (Nonprofit Enterprise at Work), Inc., (see Vinokur-Kaplan & Connor, 1997, 1998) as well as written documentation and some interviews with other incubators in the U.S.

In sum, this paper addresses a new and still emerging phenomenon and represents "work-in-progress". We hope that these initial results might be helpful for considering whether such evolving models might be useful to other countries and states that are seeking to broaden, strengthen, or otherwise develop their third sectors. More specifically, we have the following purposes in mind by drawing your attention to the current emergence and functioning of these incubators:

To summarize the characteristics of incubators;

To find out what precipitated these nonprofit incubators' foundings, namely, how they got started in the first place;

To document the variety of purposes we have discovered that they serve in promoting the onprofit sector, despite their common name of "incubators;"

To begin to raise questions about whether or not they are efficient and effective in supporting needed community service and advocacy organizations, especially during the recent tide of budget cutbacks and simultaneous growth in the number of nonprofits in the U.S.A.; and

Most importantly, to use this forum as a means for finding out about similar organizations in other countries, the purposes they serve, and their role in their respective nonprofit sectors.

On the surface, nonprofit incubators "sound like" a good idea. And a recent national study of business incubators in the United States (Molnar et al., 1997) found that business incubator programs indeed have helped local communities; namely, they help companies create many new jobs for a low subsidy payment and a substantial return on investment; such incubator companies experience healthy growth, high survival rates of their "graduates", and remain in their communities (see Molnar et al., p.6).

But as with many things, there are conditions and constraints which seem to help to improve their functioning, such as careful selection of prospective tenants. Lest others be over-zealous in applying this model, we thought it helpful to look at it a little more critically, so that the lessons learned to date could be shared, any special concerns of applying a business model to the third sector could surface, and our preliminary ideas might be further tested in the future using a more international approach.

## **What are the Characteristics of an Incubator?**

Business incubation is a relatively new idea--"the first business incubator appeared more than 30 years ago in response to plant closures in Batavia, New York...[and] more typical incubation programs sprang up late in the 1970s" (Molnar et al., p. 8). Many of you have probably heard or read about "hi-tech" incubators, which support entrepreneurs to develop their new ideas and products. In the nonprofit examples we will present, nearly all these nonprofit incubators are relatively young, most having been established in the last decade.

In the business sector, incubators aim to nurture new firms and ideas. If we apply a "life cycle of organizations" approach to this phenomenon, (cf. Hasenfeld & Schmid, 1989), incubators are a vehicle to bring an organization from its entrepreneurial beginning to become at least a collectivity with the goal of further growth. Eventually it may become a more formal, bureaucratic organization that can now compete and hopefully survive in a competitive marketplace. This incubation approach has been successfully used in development of for-profit products and services, such as computer software prototypes and new services seeking to eventually "make it big" (See Simurda, 1995). These entrepreneurs are fostered in incubating environments that typically include the following characteristics: "incubators provide hands-on management assistance, access to financing and orchestrated exposure to critical business or technical support services" (NBIA, 1997, p. 1). They also often offer low-cost space, shared support services, and a network of peers and seasoned professionals with whom new entrepreneurs and advocates can develop their organizations--often all under one roof.

*See Figure 2 - Characteristics of Business Incubators*

## **How Some of these Nonprofit Incubators Started**

There are many different stories and contexts surrounding the development of these incubators. Moreover, three themes seem to emerge:

*Catalysts:* They appear to emerge for more than one reason (namely, some confluence of events takes place), or they are part of a larger plan of community or regional development.

*Conditions of Locale:* They are often founded to rehabilitate some area, by building a new structure or rehabilitating an older, often blighted site.

*Initial Leaders & Partners:* There are often charismatic, or at least very determined leaders involved; but there is also a need for partnership in order to have the incubator venture itself proceed to completion.

*See Figure 3 - A Comparison of NEW and New Brunswick Development Corporation's National Headquarters Project*

*NEW, Inc.*

In the story of NEW, Inc., it is unlikely that we would see the new building standing and functioning there today, were it not for the determination of the founders of the McKinley Foundation, a new, local, public foundation for which NEW was its first major project. (For further details, see Vinokur-Kaplan, Connor & Cawhorn, 1998). The concerns here were dual: (1) how could one of the main entryways to the town of Ann Arbor (Ann Arbor is a university town in Southeastern Michigan, about 40 miles west of the City of Detroit) be improved from its current unsightly junkyard condition?; and (2) how could small, struggling current and emerging nonprofits be helped to have the space they need and shed some of their respective overhead costs?

After a successful capital campaign, a very long process of land remediation ensued, due to past pollution of the site. This step required the active cooperation of state government as well as other, private members of the building and professional trades who contributed much of their necessary efforts. When the building was completed, the McKinley Foundation gave the deed for this already paid-for property to a new nonprofit established to develop and manage the site, called NEW-Nonprofit Enterprise at Work, Inc. The new facility provided a new, well-designed office building, underwritten by community contributors, providing office space for 25

small, local nonprofits, with rentals costing well-below market rate. Therein, shared support and informational services, as well as meeting space, were available to all tenants. This arrangement allowed the tenants to maximize allocating their resources towards development or provision of services; A restrictive covenant in the deed required the deliberate designation of the mix of tenants' foci (at least 25% human services, 25% arts, music and other cultural groups, and 50% other types of organizations [e.g. ecology, advocacy, education, international awareness]). In addition, 10% of the tenants were to be "new" organizations, less than 5 years old who were in need of "incubating".

*See Figure 4 - Comparison of Business and Two Nonprofit Incubators: NEW & DEVCO*

If we look at Figure 4 and assess whether or not NEW is an incubator using the business definition, the answer is mostly yes. However, it has become much more than that. In brief, it has also become an accessible address for nonprofits throughout the larger community. Various nonprofit groups are in contact with NEW through such programs as a consulting consortium, management workshop series, and reserving of shared meeting facilities. It has also become a neutral meeting ground where representatives of all three sectors can meet and work on improving the entire system of services within the community. This work has most recently been exemplified by successful collaboration regarding improved coordinating of service-delivery to the county's homeless (Connor, 1998). It also showcases and celebrates the contributions of the nonprofit sector as a whole to improving the quality of life in the area via annual awards and celebrations.

#### *The New Brunswick Development Corporation's National Headquarters Project*

The New Brunswick Development Corporation, (DEVCO) is a 20-year old nonprofit organization that was created to support the economic revitalization of New Brunswick, New Jersey. This historical city, located between the metropolises of New York City and Philadelphia, had begun to suffer the economic decline facing many older American cities in the 1970's. However, with the decision of the large Johnson & Johnson Corporation to remain and build its new international headquarters in New Brunswick, new commitments were made by various parties to improve the city, and the New Brunswick Development Corporation was created as the organization to facilitate this effort. Through investment of nearly U.S. \$1 billion, the city has begun to recapture its vitality through the construction of major office and retail complexes,

the development of an internationally recognized cultural center, the emergence of world class health-care institutions and facilities, and the creation of affordable, market-rate, and senior housing. (See "Revitalizing New Brunswick," 1998, p. 1).

While DEVCO has recruited for-profit businesses, it recently realized that it could also recruit *nonprofit* health organizations as part of its plan. A feasibility study found the idea attractive to nonprofit executives around the country, enticed by "the promise of some sharing of services, along the lines of the business incubators that have sprung up all over New Jersey" (Goldblatt, 1998, p. 16). In January, 1997, the National Headquarters Project was launched to actively recruit nonprofits to move their headquarters to New Brunswick, which seeks to be known as "America's Health Care City." It particularly recruits national and other large organizations who seek a voice closer to Washington and New York, and who can find rents and costs of living lower than those of New York or Boston, where many such headquarters traditionally have been sited.

While these organizations' memberships may be very large, and they may provide services around the world, current technology and organization allow them to be run from headquarters offices typically staffed by 3-15 employees. The project received support from high-level New Brunswick-based executives, such as the CEO of Robert Wood Johnson University Hospital, who is also involved with the Mayor's marketing task force "which plans initiatives to raise the city's profile and attract new organizations" (Goldblatt, p. 16).

To date, four health or child-focused organizations with a national or international presence have signed on as charter members of The National Headquarters Project, as noted in a DEVCO press release in November, 1997:

MESAB (Medical Education for South African Blacks), previously based in Rockville, Maryland, which raises funds for the training and development of black health care professionals in order to help improve health care for all South Africans;

National Women's Health Resource Center--the national clearinghouse for women's health information, previously based in Washington, DC, educates consumers about health issues and encourages women to become more informed health care decision makers;

Operation Smile, Inc., an internationally-recognized, volunteer medical organization based in Norfolk, Virginia, that has been correcting facial deformities around the world for 15 years; and,

Prevent Child Abuse-New Jersey--the largest chapter of the National Association to Prevent Child Abuse, previously headquartered in Newark.

Additional relocation negotiations are also underway with a variety of medical profession membership organizations, several disease-related foundations, and a number of nationwide health-related and child advocacy groups. (DEVCO, 1997).

If we look at Figure 4, we see that DEVCO's Project has also adhered quite closely to the characteristics of business incubators, and it is still in the process of developing some of its own infrastructure. Its culture and activities are shaped by the ongoing development efforts of DEVCO and its distinct ties to business and economic development. For example, the director of the National Women's Health Resources Center moved to New Brunswick for two reasons. "As a nonprofit, her group relies heavily on private industry for its funding, but also as a means to disseminate its information products to a large audience" (Goldblatt, p. 18). New Jersey has a strong concentration of drug companies, hospitals and Johnson & Johnson medical supplies, as well as health oriented foundations (such as the Robert Wood Johnson Foundation).

## **Conclusions:**

What can we learn from this brief overview of nonprofit incubators and related cooperative strategies?

1. *An accrual of reports and testimonials contend that shared space and support are efficient and may also increase effectiveness.* They are especially helping smaller nonprofit organizations to cut down on unnecessary costs by eliminating redundant infrastructure. It is also helping them to gain access to more comfortable and efficient sites, as well as higher-cost technologies (such as desktop printing, website management, sophisticated databases) by collaborating with other agencies, through joint purchases, sharing, or subcontracting. Our point of view is *not* that the nonprofit sector should get along with less or stop growing. Rather, such cooperative tactics allow nonprofits to do more of what they are established for--more programs, more

services, more advocacy, more pursuit of their missions.

2. *Incubators seem to help nonprofits develop and grow.* Places like DEVCO provide nonprofits with greater access to centers of power and influence (for advocacy purposes), and proximity to certain funders and kindred spirits. They also help more localized organizations learn to assume a greater global perspective and seek a more national presence. Such proximity can breed contentment (provided prospective tenants are so oriented or socialized). For even in these days of e-mail and high-tech telecommunication, the promotion, productivity and celebration of the nonprofit sector still requires face-to-face contact and meetings. And under the best scenarios, such proximity and sharing promotes desirable new synergies.

3. *Nonprofit Incubators can play a role not only as developers, but also as needed havens for small, voluntary groups.* In some cases, today's technologies can allow some small voluntary groups to run their organizations out of someone's basement and do most of their business using a member's personal computer and connections to the web. For many, however, such technology is not affordable, accessible or easily learned. Moreover, the camaraderie and the formal and informal support that proximity to kindred spirits can bring is often missing. Therefore, places like NEW, and the Marian Center in Milwaukee may be evolving the role of haven for small, voluntary nonprofits and groups. (The Marian Center is a refurbished former Catholic girls high school, which the sisters of St. Francis of Assisi have converted into office space and other shared amenities for groups reflecting Franciscan values of promoting human development through education, the arts, and social justice). Such a "nesting place" almost promotes a philosophy of "small is beautiful--and functional!" On the one hand, it allows them to stay small and close to their "roots" and constituencies through lowered office space costs and shared services; on the other hand, such agencies could powerfully increase their impact while remaining fully volunteer-based --an important consideration in times of constrained funding.

4. *Nonprofit Incubators don't stand alone--they are understandably more deeply tied to the social, cultural and spiritual needs and development of their communities whom they serve.* (This is as compared to their business incubator counterparts, in which products may be developed for a more anonymous or national markets). Insofar as nonprofit incubators become a meeting place for nurturing cross-sector alliances and partnerships, such meetings can be as meaningful as the for-profit introductions to financing and venture funds in their for-profit counterparts. Indeed, the evolving Israeli Incubator for Social Innovation, (which is in itself a collaborative effort of a score of public and nonprofit "parent" organizations involved in social and



community welfare), has taken this idea one step further. It has designed its process so that the innovating social entrepreneurs will present and try to "sell" their new programs and projects to a panel of these potential funders (Sharir, 1998).

The community ties of nonprofit incubators are also reflected in the frequent correlation they have with community and neighborhood rehabilitation. Interestingly, many of the for-profit incubators are housed in unused space, such as empty warehouses or office buildings. In comparison, nonprofit incubators make their first impact before the first nonprofit tenant moves in, by already enhancing the neighborhood through refurbishment. This "new neighbor" brings a symbolic message to the area and the public, of hope and optimism, energies that can then be further mobilized for working with and working for the nonprofits and the public benefits and welfare they pursue. Thus, just as the incubators serve a larger purpose of economic development, so too can the nonprofit incubators serve a larger purpose of social and community development.

Therefore, people thinking of setting up incubators may wish to take the following considerations into account:

*Location:* Make them accessible to the community and not remote from it. This also encourages participation of actors from other collaborating sectors, such as business and government organizations.

*Ambiance:* Make them welcoming to the entire community and its sets of nonprofit and public organizations (as do NEW and the Marian Center), and not focused exclusively on the tenants. This increases the usage, importance and legitimacy of such centers to their

*Target Population:* Consider what *is* the target NPO population--a particular subsector, or mixture by design, or a free-for-all? Consider the pros and cons of each alternative--and design accordingly.

*Lease Length:* Decide if there is to be required turnover for the tenants (as for-profit incubators usually require) or whether a more laissez-faire, "small is beautiful" haven is being established.

*Organizational Culture:* Realize that incubators can be quintessential learning organizations and are poised to promote new synergies that benefit the public's

welfare.

We welcome your questions and comments, and hope to learn about other related efforts being conducted in other parts of the world. Thank you.

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Figure 1: EXAMPLES OF SHARED SITE OR CO-LOCATED NONPROFIT ORGANIZATIONS

Shared Site Organization	City/State	Original Goal	Year Established
The Thoreau Center for Sustainability (at former Presidio military base)	San Francisco,  California	Public/private partnership to rehabilitate  historic site according to sustainable design  principles	1996

Nonprofit Enterprise at Work [NEW, Inc.]	Ann Arbor, Michigan	Reduce the administrative overhead costs  burdening and threatening small nonprofits	1993
National Headquarters Project - New Brunswick Development Corporation (DEVCO)	New Brunswick, New Jersey	Recruit larger, relocating nonprofit association  headquarters concerned with health and children's welfare	1997
The Association Center, 120 Wall Street	New York City, New York	Prevent continued loss of nonprofit organizations seeking lower rents outside NYC and the related financial and cultural resources lost to NYC	1992
Wilson Historic District	Dallas, Texas	Renew an historical neighborhood,  encourage collaboration among nonprofit agencies and improve their operations and expand their services.	1981
The Marian Center (Sisters of St. Francis of Assisi)	Milwaukee, Wisconsin	Assist non-profits reflecting Franciscan values and traditions, by offering them affordable rental space, promoting human development through	1992

education, the arts and

social justice

Based on Dundjerski, 1997; Batchilder, 1997; Kohm, 1998; and from conversations with and public materials received from these agencies.

## **Figure 2: Characteristics of Business Incubators**

### **Characteristics of Business Incubators**

Hands-on management assistance

Access to financing

Orchestrated exposure to critical business or technical

support services

Shared support services

A network of peers and seasoned professionals with whom new entrepreneurs and advocates can develop their organizations:

Shared physical space:

Access to equipment

Flexible leases

Expandable space

Source: National Business Incubator Association (web page)1997,  
([www.nbia.org](http://www.nbia.org))

**Figure 3: A Comparison of NEW, Inc. (Ann Arbor, MI) and the National Headquarters Project (New Brunswick Development Corporation), (New Brunswick, New Jersey)**

	<b>NEW, Inc.</b>	<b>National Headquarters Project of America's Health Care City</b>
City	approx. 130,000.	41,000 residents; about 120,000
Population		population during the day including commuters.
Locale	Midwestern semi-rural county, 40 miles from Detroit metropolitan center.	East coast, aging small city, 45 minutes southwest of New York City.
	High quality of life and culture; low unemployment, mixed economy with large service and nonprofit sector (especially universities, hospitals).	Town known for university, medical school & hospitals, and international headquarters of Johnson & Johnson (medical supplies and consumer products).
Catalyst/ Initiative	New, local public foundation; founders have strong ties to the real estate and investment community; and deep commitment to the arts.	Evolving part of overall CED (Community Economic Development) plan.
	Long-established community	

eyesore.

Perspective	Community focused with some environmental development.	Overall city development plan; part of three sector initiative.
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**Figure 4 - Comparison of Business & Nonprofit Incubators ( u = degree present)**

**Characteristics of**

**Business Incubators**

Hands-on management assistance

NEW

uu Present

on-site facility manager; workshops

Access to financing

Indirectly

Reference Collection; below market rent; interests of board

Orchestrated exposure to critical business or technical support services

uu Considerably

Workshops, consulting service

A network of peers and seasoned professionals with whom new

uuuu Both present

co-tenants, annual

DEVCO

u Somewhat present

advisory council

Indirectly

indirectly through refurbished space; longer term commitment of community (e.g. J&J)

uu Considerably

Advisory Committee

uu Seasoned professionals present.



entrepreneurs and	conferences, information	Proximity to complementary
advocates can develop	sharing, reference collection,	health and child-focused
their organizations:	comnet (nonprofit e-mail)	organizations
	linkage	
Shared physical space:	u under one roof	u under one roof
Access to equipment	u local computer network	u office machines
Flexible leases	u yes (in practice)	(not ascertained)
Expandable space	not currently	planned for future

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