

# *Reshaping the Business Incubator Model: The Case of the Value Chain Model of Innovation Works in China*

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*Since the late 1980s, the business incubator model in China has been evolving—from the early traditional model that focused mainly on providing basic services, such as office space and one-stop administrative services, to an emerging value chain model (value position, value creation, value transfer and value capture), which efficiently combines the profits of an incubator with the success of its incubating tenant ventures. This article analyses the case of ‘Innovation Works’, which is one of the pioneers of the value chain model in China. It raises the following research questions: (a) how does the incubator business model evolve over time in China? (b) What differentiates the value chain business incubator model from the traditional model? (c) What are the critical elements that contribute to the success of a value chain business incubator model? Using primary data gathered through interviews, on-site visits and surveys, the study found that the incubator business model in China has been reshaping towards more complex value propositions and more efficient value chain models. The study also found that specialisation, flat organisational structure and professional management team are the critical elements that contribute to the success or efficient performance of the value chain business incubator model. This article makes significant contributions to the literature and draws policy implications for future business incubator development—both in China and in other emerging economies.*

**Keywords:** Business incubator model, value chain model, innovation works, China

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## Introduction

NUMEROUS SCHOLARS have been studying incubators for the last three decades, given their prospects for entrepreneurship development and impact on economic growth at large (Hackett & Dilts, 2004). Nevertheless, there has been mixed evidence on whether incubators promote the growth of start-up businesses effectively (Barrow, 2001; McAdam & Marlow, 2007). One major concern is the relevance of the business models of the incubators. The business model is extremely crucial for incubators in order to provide new businesses with needed services and to rethink their strategies for better performance (Zott & Amit, 2010). Indeed, it is argued that the needs of new businesses are driving forces for the existence of incubator heterogeneity and the evolution of incubator business models (Grimaldi & Grandi, 2005). In other words, the target customers of an incubator and how the incubator should respond to their needs should influence designing of an incubation model. Extant literature focuses largely on the service value provided by the incubators, because understanding the value propositions of incubators is vital for assessing their influence on incubating firms (Bruneel, Ratinho, Clarysse, & Groen, 2012). Over the years, the business models of incubators—which include science parks, technology business incubators (TBIs), innovation parks, accelerators and non-profit and for-profit models—have been continuously evolving (Aernoudt, 2004; Barrow, 2001; Grimaldi & Grandi, 2005; Hackett & Dilts, 2008; Pauwels, Clarysse, Wright, & Hove, 2016).

There are numerous attempts by policymakers as well as the management of the incubators to explore new business models. In the context of the fast-changing global and domestic business environments, there is a need to understand how various types of incubators create value for tenant ventures. The existing literature overlooks the overall service value creation process within the incubation system. By adopting a value chain perspective, this study analyses a new generation incubator called ‘Innovation Works’ in Beijing, China. It provides an in-depth analysis of how the value chain incubator model works by examining four critical dimensions, namely: value position, value creation, value capture and value transfer. Along the way, it also analyses how the value chain model differs from the traditional incubator model. It further analyses the critical elements that make the value chain model a success.

This article contributes in the following ways. First, in a broader sense, it explores the evolution of the incubator model in China and identifies the factors contributing towards the formation of the value chain incubator model. Second, it provides insights on how the value chain model operates and differs from the traditional TBI model. Third, it identifies the critical elements of the value chain model.

## Literature Review

### Business Model Research

Although business model research began in the 1950s (Kamoun, 2008), scholars have yet to reach an agreement on what a ‘business model’ actually is. Morris,