

## Chapter 9

# Virtual Business Incubations: An Alternative Way to Develop and Service Peripheral Areas Case Study of Tourism in Finnish Lapland

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### ABSTRACT

*This article examines possibilities to develop the service sector in a peripheral area by using virtual business incubations instead of traditional, location-based business incubations. The article introduces typical characteristics of physical business incubations and compares them with features that are possible to be provided also virtually. Then, using the tourism branch in Finnish Lapland as a basis for a case study, the article shows that virtual implementation of business incubations is in some cases either better or even the only possible way to provide services typical for business incubations. Furthermore, the article discusses how the logic of virtual business incubations provides a win-win or a win-win-win situation than a win-lose situation for the businesses involved: the establishment of a virtual business incubation between competing firms is able to create value in a way resembling the situation in multi-faceted cooperation (Brandenburger & Nalebuff, 1996) without typical economic-geographical zero-sum game of traditional business incubations. The article shows both practical and theoretical importance of virtual incubations in business and in business research.*

### 1. INTRODUCTION

Business incubations have met remarkable practical and scientific interest (Hannon & Chaplin, 2003; Hong et al., 2005; Buys & MBewana, 2007). However, nearly all studies on business incubations

have considered only traditional, location-based forms of incubations. In peripheral areas such as Finnish Lapland this kind of location-based development work meets several problems. Although the virtually implemented business incubation is one possible and promising alternative way

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to provide many typical functions of traditional business incubations without these place-related problems, the business studies have neglected the importance and possibilities of virtual business incubations, only with a couple of exceptions (Tsai et al., 2009). Of course, there are some other studies focusing on other concepts, such as virtual organisation (Shouhong, 2000) and Enterprise resource management (ERP) models (Muscatello & Parente, 2006), which consider nearly the same services provided via virtual business incubations.

This study shows that in a peripheral context the establishment of traditional, physical, location-based business incubations have - in addition to various positive effects - also several negative discriminating societal effects, whereas the establishment of virtual business incubations does not have these discriminating effects. Using tourism branch in Finnish Lapland as a case example the study suggests that virtual business incubations provide peripheral enterprises a possibility to exploit the services of business incubations without changing their current residence, simultaneously solving many societal disadvantages associated with physical business incubations. These questions are important in the development work of peripheries such as Finnish Lapland.

Because of these remarkable societal effects the theme of virtual business incubations should be considered more intensively in the management studies, and especially in the studies of knowledge intensive business services (KIBS). Virtual business incubations have generally several features typical for KIBS. According to Toivanen (2004) "Knowledge-intensive business services (KIBS) are expert companies that provide services to other companies and organisations. IT services, R&D services, technical consultancy, legal, financial and management consultancy, and marketing communications are typical KIBS industries." This study shows that both physical and virtual business incubations fulfill this definition.

In this article the possibilities of virtual business incubations are introduced in the context of Northern Finland and branch of tourism. Based

on comparisons between advantages and disadvantages of a virtual business incubation versus a location-based incubation and on a case study analysis the article shows that in some conditions virtual implementation is nearly the only possible way to provide services typical for business incubations.

The case study is focused on service sector, because the importance of services has increased during the last decades. Also in contemporary management literature KIBS have become an important subject of research (Toivanen, 2004; Muller & Doloreux, 2008). Furthermore, this study considers tourism, which is a very typical form of service consisting of several sub-branches and multifaceted sources of livelihood. Tourism has also great economic importance in the Northern part of Finland, in Lapland.

The study is organised as follows: next I will present the history and general characteristics of business incubations, considering also the dichotomy between traditional location-based business incubations and virtually implemented business incubations. Then I will introduce the methodology of the research, and present my case study analysis, in which I apply business incubation concept to the context of tourism business in Finnish Lapland. Finally I will discuss the wider viewpoints and applications of virtual business incubations based on the results of the case analysis presented.

## **2. THE HISTORY AND CHARACTERISTICS OF BUSINESS INCUBATIONS**

### **2.1. History of Traditional Business Incubations**

Traditionally business incubations have been established at a certain geographical location, being often based on one large building like an abandoned manufacturing plant, as in the case of the first business incubation in the USA, the

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