SUMMARY

AN ANALYSIS OF A 2005 SURVEY OF UNIVERSITY BASED VENTURE FUNDING

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Principal Topic

The core focus for this research project is to analyze what alternative university based venture based funding mechanisms are currently being used to promote entrepreneurship and regional development, who is managing those funds, what returns are expected, and outcomes of the investments. The research project is intended to provide a benchmark for universities considering financing options for entrepreneurial development. The questions on size, type, qualifications, management, purpose, management and results are all intended to help in the decision making process.

The underlying belief is that a venture fund should somehow help accomplish the universities overarching goals. These goals typically include:

- Educating students
- Promoting research/knowledge acquisition
- Enhancing economic development
- Creating opportunities for students and faculty
- Identification of sustainable resources
- Community outreach

The development of venture funds (of whatever type) is seen as a possible alternative method to achieve any or all of these core university goals and the research will tell us the prevailing views of a broad mix of universities.

Methodology and Survey Design

A web based survey will be sent to directors of Centers of Entrepreneurship, persons identified in a web search/identification process who have funds and to universities identified in a snowball sample of referrals from colleagues and the National Venture Capital Association. The key issues mentioned in the introduction will form the core of the survey. In addition an "intentions" section will be included and a section for programs that do not have a fund will include the "wisdom" of providing such funds that may be seen as competing with private capital. A specific topic to be researched is when do university funds compete? For example, will "gap" funds that get student based companies going when they are not candidates for private funding and may make them eligible for private sector funding be more acceptable?

In the alternatives section of the survey everything from small grants ($2500 or less) to $500,000+ venture fund investments will be investigated. Student loan funds, gap funds, links to angels or traditional venture capital firms, foundation grants and other mechanisms have been identified in a preliminary web review of an estimated 35 universities that had some type of funding procedures. Finally, the purpose of the funds and eligibility requirements for funding will be investigated. The data collection is being done in September of 2005 and a full analysis will be available in late October to provide a paper for the conference.

Results and Implications for Universities

The results for the university can include community benefits, financial returns, prestige, educational and research opportunities.

Community: Impacts on the university and the community are *not only* from returns on the investments. It is also from the long-term relationships that are developed. For example, a smart fund director will involve community advisors in the process, thus cementing those relationships. The university fills in the gap that others are not willing to fill -- seed stage.

Second, a long-range impact on the university and the community occurs. Success is a fabulous story. The local press will love the idea of a student making good. Moreover, we all hope that student will give us a big gift and that we can write that up too. The impact is also from the entrepreneurship group at the university providing a way to encourage the community to make it more business-friendly.

Returns: Typically, venture focused funds overall should look for about 20% annualized return. In translation, that means about 40% annualized return on each individual deal. The figures may differ from that a bit, but the idea is solid -- fund deals so that your whole portfolio pays. An alternative approach is the economic development model that says the benefits of the funding in job creation, tax revenues and business fees/expenses should also be considered and thus may only require a 10% range of annualized returns. Both of these models will be tested.

Prestige: Universities compete for rankings, awards, press coverage and feel good stories to increase the quality of students attending and to attract donor funds. Positive press based on contributions to the job pool, taxes paid, and quality of life stories are always welcome. The attractiveness of the university to donors is also enhanced. An example is at the university of one of the authors success in the entrepreneurship program has resulted in a $10 million commitment to entrepreneurial excellence and a broad range of new educational and development initiatives in only three years of developing the initial program.

Educational and Research Impacts: The students are the immediate beneficiaries of such programs. New opportunities for internships, jobs, class projects and "live" business contacts are the minimum expected returns. Research opportunities for case writing and data collection on a longitudinal basis are available for faculty. Additional benefits can come from funded research projects supporting the business ideas under development or those funded. In the U.S., the Small Business Innovation Research (SBIR) program is a potential source for the firm to receive grant funding of up to $750,000 without any debt or equity impacts. The universities can receive significant portions of the funds for research purposes, lab equipment and faculty consulting.

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