CAUX ROUND TABLE

Moral Capitalism *at Work*

Business and Public Policy Round Table
September 17th, 2013
Saint Cloud State University

"Venture Capital"

Guest Speaker: Kathy Tunheim, CEO of Tunheim and Senior Advisor, Governor Mark Dayton

Introductory presenters: King Banaian, Professor of Economic, St. Cloud State University; Rick Bauerly, Managing Partner, Granite Equity Partners; John Stavig, Director, Gary S. Holmes Center for Entrepreneurship, Carlson School of Management, University of Minnesota

Chair, facilitator and rapporteur: Orn Bodvarsson, Professor of Economics and Dean, School of Public Affairs, St. Cloud State University

Moderator: Nicholas Conant, Financial Advisor, Wells Fargo

Participants: Julie Andzenge, Teresa Bohnen, Dan Bullert, Tarryl Clark, Leslie Dingmann, Pat Edeburn, Patti Garland, Jed Ipsen, Louis Johnston, Bill Kemp, Leigh Lenzmeier, Larry Logeman, Adam Maikkula, Marty Moran, Keith Olson, Mark Ostendorf, Mark Ritchie, Jim Schiffler, Mary Jo Stangl, Beth Strinden Kadoun

Conclusions:

Since 2007, venture capital in Minnesota has decreased substantially.

Kathy Tunheim, a senior economic growth and jobs advisor to Governor Mark Dayton, began the discussion by describing the results of a summit the Governor's office held in 2011 to identify why venture capital has decreased and to determine what the state should be doing about it. Out of this, they identified seven key areas they can assist in to create the environment for the private sector to thrive. They are: building infrastructure; helping small businesses access export markets; produce a well-trained workforce; reduce education disparities; improve access to capital; improve regulatory reform and streamline the process; and continually improve and streamline the cost of government.

Of the seven areas identified, there was general agreement that regulatory issues and lack of talent and education are driving the various factors behind the decrease in venture capital. As noted by Rick Bauerly of Granite Equity Partners, "venture capital follows talent and talent develops technology." John Stavig of the Carlson School of Management believes "venture capital invests in extraordinary people and there are few that fit their model." "Large firms have not been developing and spinning off talented individuals the way they used to." This failure begins with our children, according to Jim Schiffler. As he pointed out, we are not teaching our children the key components of risk-taking and greatness that is involved in entrepreneurship.

To address the educational disparity, Bauerly suggested we should prepare talented individuals through connecting businesses with students, improving faculty engagement with businesses, increasing apprenticeships, and mentoring, especially in entrepreneurship. Colleges should work more closely with businesses to develop technology in the universities, which would connect students with firms and reduce the cost of R&D. In regards to mentoring, Stavig noted that in the past, there has been little success using incubator systems and instead, argued for a more long-term approach. The treehouse model sounded like a good system. In addition, the economic development community should focus on having a youth coordinator to work with young people long before college.

Another issue, raised by King Banaian, was that venture capital around the country is having trouble, which may be a result of fewer opportunities for profit. There have been fewer IPO's coming out of venture capital. If there are fewer opportunities to sell and make a profit, there is less incentive to invest. Minnesota used to attract large amounts of venture capital into the biotech sector since there was huge growth, but regulatory issues have since hurt the industry. Changes in the regulatory climate could stimulate growth in venture capital.

Tunheim believes the way we fund new ideas is not working and that we need to make changes for the long-term. As we talk about Minnesota moving forward, the cultural norms of risk-taking may need to change. The process of startups is changing due to the nature of new businesses in the technology industry. Our history of how we do things is a hindrance to some of our investing. Nick Conant said that "startups don't need venture capital like they use to." Many startups are now low cost and financed by their founders. Venture capital is introduced later when the company decides to expand. Adam Maikkula, an entrepreneur, shared his experience in looking for funds. He found the traditional means of getting money has changed. As a result, he went to the internet to find a community of people who were willing to take a risk. Marty Moran believes we must change the framework and process of how we think about starting a business.

Finally, both Tunheim and Mark Ritchie, Minnesota's Secretary of State, advocated for change in the way we talk about the business climate in Minnesota. Tunheim said that as people hear something over and over again, they start to believe it, which can create problems. Ritchie stated that startups have increased every year since he has been in office and urged everyone to look at what is going on in Minnesota and not focus on speculation.