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RECOMMENDATIONS  
OF THE  
GOVERNOR'S COUNCIL  
ON  
INNOVATION AND ENTREPRENEURSHIP

OCTOBER 12, 1984

## PREFACE

"One-third of the Fortune 500 companies are no longer on the list. Companies that were in garages 20 years ago, or that did not exist, are now dominating the 500. The companies that will provide the jobs we need 20 years from now don't exist today."

Harvard Business School Bulletin  
April, 1984

National statistics underscore the dramatic fact that America's economic future depends on the creation of new businesses. Indeed, between 1969 and 1976, the U.S. Department of Commerce reports that businesses with fewer than 20 employees created 66% of all new jobs in this country. Similarly the number of new business start-ups has increased by 30% since 1970. Employment and new business start-up trends like these have far reaching impact on our thinking about job creation and economic development.

One of Minnesota's greatest strengths has been its ability to spawn new and often fast growing enterprises. New Minnesota businesses produce up to 70 percent of our new jobs -- far more than the number produced by major Minnesota corporations. Without question, Minnesota entrepreneurs will be responsible for a clear majority of new jobs created in the next decade and beyond. In fact, Minnesota is already a leader in this category. The state ranks number one (by per capita standards) as the state that has produced the most new and fast growing companies in the U.S. This statistic alone underscores Minnesota's rare ability to nurture entrepreneurship. Nor has this nurturing been a new phenomenon. Minnesota has been fertile territory for entrepreneurial efforts since statehood.

Recognizing the importance of entrepreneurship and innovation to job creation and economic growth Governor Rudy Perpich established the Council for Entrepreneurship and Innovation in February, 1984. The Council is composed of 32 Minnesotans from all over the state who have started and built their own manufacturing, service and retail businesses, as members who work with Minnesota entrepreneurship.

The Council has been meeting, studying and exploring recommendations since May 1984. Over the past six-month period, the Council has met with Minnesota bankers, small business people, educators, financial analysts, law makers, representatives of state government and small business service providers in order to prepare this report.

The recommendations contained in this preliminary report of the Council are designed to raise the success rate of entrepreneurial ventures in Minnesota. The basis for this objective is the belief that those new ventures are the hope of Minnesota's economic growth as their efforts translate into new jobs and prospects for prosperity. It is the contention of the Council that Minnesota can achieve and maintain a higher new business success rate than the national average -- a ratio that is now 20 percent success compared to an 80 percent failure rate in the first five year's of a new venture's life. The Council is

convinced that Minnesota entrepreneurs are the economic heroes of the 1980's and that these entrepreneurs deserve considerable attention, advocacy, public/private initiatives and financial support for their creative endeavors.

In order to improve the success rate of entrepreneurs in the State of Minnesota the Governor's Council on Entrepreneurship and Innovation has focused its attention and recommendations on three subject areas -- finance, education and support services, as they directly relate to entrepreneurs.

During the course of discussion the Council's three subcommittees explored and studied resources available to entrepreneurs, examined the needs of this economic group and submits the following recommendations to the Governor for consideration and funding.

## FINANCE RECOMMENDATIONS

We know that new and emerging businesses in Minnesota create a majority of the new jobs in this state. We also know that service and retail businesses create the largest percentage of new jobs. It is the goal of this Council to use existing funds and programs to further enhance this job creation process.

The Council found that financing and technical assistance are not readily available for non-high technology businesses. The majority of current financing programs -- indeed, virtually all -- are not designed to provide start-up and/or operating capital for Minnesota's service and retail businesses, even though the state is moving steadily toward a service-based economy. Most business loans are tied to building or equipment purchases. While Minnesota has substantial venture capital money available, it is primarily second-stage financing for high-tech businesses with patentable products. Even the Minnesota Seed Capital Fund is high-tech in its orientation.

Another important gap is the lack of on-going technical assistance, the kind of assistance that would be provided by a local cooperation office. In order to improve the success rate of entrepreneurial ventures in Minnesota, technical assistance must be provided in conjunction with any financing program.

We have arrived at these conclusions through much research and numerous discussions with representatives of the Minnesota banking community, venture capital community, the GCRD, SBA, the Minnesota Cooperation Office, the Community Investments Consortium, entrepreneurs themselves who have confronted this fundamental financial need, and representatives of the state, particularly the DEED.

Throughout our research we have found that many of our ideas can be integrated into existing programs and state departments such as DEED, MEED and DES.

Consequently, we are prepared to make the following recommendations:

### 1. FINANCING

- A. Develop a state-wide seed capital fund for "any-tech" small business ventures (high-tech seems to be adequately funded) with an initial state appropriation of \$6 million.

A seed capital fund that invests in any-tech small businesses needs to be developed under the auspices of the Minnesota Department of Energy and Economic Development or through an extension of an existing DEED fund. The seed capital fund could be modeled after the Wisconsin Finance Authority. Private monies should be linked with this fund.

Loan applicants would be required to accept ongoing technical assistance from a cooperation office, a SCORE/ACE volunteer, or other qualified provider. The applicant also would be required to meet standard criteria, i.e. present a workable business plan, make a significant investment of his or her own capital and offer some business or personal collateral beyond that personal investment.

- B. Establish a Loan Loss Reserve Program based on a partnership between the State of Minnesota, financial institutions and the entrepreneur.

A loan loss reserve program should be designed to provide an incentive for banking institutions to take a greater risk on Minnesota small businesses. A local bank would apply to participate in the program and would develop its own ongoing reserve fund to finance potential loss from defaulted loans.

The state would need to make a one-time appropriation of \$4 million as the initial reserve for the fund. As each loan is negotiated in a participating bank, 15 percent of the loan is allocated to the local bank's reserve fund: the state provides 5 percent of the loan from its already-established \$4 million reserve, the bank provides 5 percent and the entrepreneur, 5 percent. When the loan is paid, the entrepreneur's 5 percent share is returned to the small business. The other 10 percent remains in the local bank's fund. With each successful, succeeding loan made, the local fund grows because the 5 percent provided by the state and the 5 percent provided by the bank remains in the fund, thus enabling banks to extend their small business lending activity. Existing funds at the DEED could be diverted for this purpose.

Once again, the loans are contingent on the entrepreneur receiving on-going technical assistance, and the entrepreneur's success in developing a workable business plan, investing his or her own capital and demonstrating that he or she has other sources of collateral.

C. Provide a state match to cities utilizing Community Development Block Grant funds (CDBG) to create financing programs for small businesses.

The Council wants to see cities become more involved in creating jobs through the development of small businesses. A potential mechanism for this would utilize a small percentage of CDBG funds already available to cities to create a local revolving loan fund. The fund might best be used to provide second-round operating capital and expansion money for the more established entrepreneur. This would tend to reduce the loan fund's risk. Creation of these local loan funds could be encouraged by competitive bidding for a state match to augment the CDBG money.

D. Broaden the Minnesota Wellspring Innovation Fund (currently being developed) to include independent inventors with any-tech ideas.

The Council believes that the Innovation Fund should be designed to include independent inventors who need a source of funding to finance the invention of new products other than those considered "high tech." One approach is to set aside a percentage of monies within the Innovation Fund for this specific and highly creative group. This would foster growth of firms such as Totinos Pizzas and Opus Corporation in addition to the Control Datas and Medtronics.

E. Develop a pilot program within MEED for a self-employment option. There are several models in this country and Europe designed to use job programs to finance new business start-ups. Because the Minnesota MEED program is up for renewal by the state legislature, we believe it should be renewed and a pilot program included. We propose that the pilot be modeled after the Vermont Jobs Program. An unemployed person who meets the MEED criteria and has a sound business plan could apply for a lump sum payment (the equivalent of wages) to start a business. Close cooperation and monitoring between the DEED and DES would be essential in this pilot phase. We recommend limiting the program to 100 individuals during the pilot phase with a MEED allocation of up to \$2 million.

- F. Include under Interstate Banking Legislation, a directive that requires new banks entering the state to invest in Minnesota small businesses and participate in DEED lending programs.

The Council believes that banking institutions entering Minnesota have a responsibility to invest a portion of their assets in our state. We would like to see an amendment attached to current legislation requiring that a specific percentage of the bank's assets remain in the local community to promote small business development (i.e., through creation of a local Loan Loss Reserve Fund, for example) and that the bank also participate in DEED lending programs.

- G. Encourage Minnesota investment companies and brokerage houses to develop funds enabling small investors to invest in Minnesota's new and growing businesses.

These private capital funds would pool the investment dollars from individual investors and therefore spread the investment risk. The investment house's money manager would direct the investments of the fund and also establish the criteria for investment. Those criteria would include: a. a workable business plan provided by the Minnesota entrepreneur; b. significant investment of the entrepreneur's own capital and, c. a demonstration that the entrepreneur has additional business or personal collateral, d. the understanding that on-going technical assistance is required for the entrepreneur.

The fund can take an equity position of up to 40 percent, make loans or issue warrants, with the understanding that after five years or before ten, the entrepreneur must buy out the fund. A percentage of any loan made by the fund would be earmarked to pay for on-going technical assistance.

To encourage investment, individuals participating in this fund would be exempt from paying state income tax on any earnings received as a result of investments of this type.

## II. TAX INCENTIVES

- A. Revise and extend indefinitely the legislation involving tax credits for investors in qualified Minnesota small businesses as described in Minnesota Statutes 1983 supplement, Section 290.069. to promote more investment by individuals and groups (Subchapter S corporations, partnerships or standard corporations).

We recognize that the under utilization of the current small business investment tax credit program has been caused by a lack of awareness on the part of the investment community and the very real limit of the \$25,000 floor, which precludes participation by individual investors of limited means.

The Council proposes that the state reduce the current equity investment floor of \$25,000 to \$5,000 with further reduction to \$1,000 for investments in Minnesota enterprise zones, and maintain the 30 percent tax credit allowed for these investments. This would provide an incentive for private financing in smaller amounts. The state must also promote this opportunity through advertising and marketing to increase investment in Minnesota entrepreneurs.

- B. Revise current statutes to provide tax credits to pension funds, institutions and individuals that invest in new and emerging Minnesota businesses.

The Council is interested in developing larger pools of monies in the private sector for Minnesota's new and growing businesses. Tax credits for investment by pension funds and institutions such as insurance companies should be developed. Massachusetts has a model for such a program.

- C. Eliminate the state sales tax for small businesses on materials used in production of finished products.

Small businesses are currently burdened with a double tax on materials purchased for the production of finished products and the Council recommends that this be eliminated.

- D. Amend current statutes to distinguish between "productive" and "non-productive" assets for the purpose of calculating capital gains tax.

Non-productive capital gains include returns on investments in gold, silver, coins, and antiques, for example. We recommend that state capital gains rates be altered to provide that more favorable rates be applied to returns on productive investments such as new enterprises, thus encouraging that type of investment behavior. California legislation might be used for guidance in this area.

### III. TECHNICAL ASSISTANCE.

- A. The Council has found that technical assistance is an essential factor in raising the success rate among Minnesota's new businesses from the current 20 percent. Cooperation offices, that are locally based and locally controlled, should be established in all regions of the state. For areas and communities without the local resources to start and support such offices, we recommend the use of entrepreneurial "extension agents" (working within the existing Minnesota Agricultural Extension Agent network) or SCORE/ACE volunteers to fill essential technical assistance requirements. This technical assistance must be on-going and a diversity of consultants, including private sector sources, must be available through staff and/or volunteers to provide a broader base of expertise to the Minnesota entrepreneur.

Any financing programs would be limited to recipients of this technical assistance. In fact, in some areas, a specific requirement for receipt of a loan may be the purchase of that technical assistance. (please see the recommendations of our Support Services subcommittee for further detail on the cooperative office concept)

- B. A data base should be designed to match investors and Minnesota entrepreneurs seeking private monies as well as volunteers with small business expertise who would be willing to work with Minnesota's new and emerging businesses. (please see the recommendations of Support Services for expansion of this data base recommendation)
- C. Educational seminars by bankers for Minnesota small business people and entrepreneurs should be encouraged to facilitate dialogue between the two groups, especially on the subject of the institution's lending criteria.

D. Pension funds are a viable source of investment that are, as yet, untapped. Promote the investment of pension funds in Minnesota's new and growing businesses. This could be accomplished through seminars and meetings with fund administrators.

Budget Request: Finance

|   | <u>1986</u>                 | <u>1987</u>        |
|---|-----------------------------|--------------------|
| I. Financing  |                             |                    |
| 1. Seed Capital Fund  | \$3,000,000                 | \$3,000,000        |
| 2. Loan Loss Reserve Fund                                   | 4,000,000                   | -                  |
| 3. Innovation Fund  | -                           | -                  |
| 4. Pilot Program (MEED) for<br>Self Employment              | 1,000,000                   | 1,000,000          |
| 5. Banking Legislation                                      | -                           | -                  |
| II. Tax Incentives  |                             |                    |
| 1. Credit for Investors                                     | -                           | -                  |
| 2. Tax Credits for Pension Funds                            | -                           | -                  |
| 3. Eliminate State Taxes on<br>Materials for Small Business | -                           | -                  |
| 4. Capital Gains Tax Changes                                | -                           | -                  |
|   | <u>\$8,000,000</u>          | <u>\$4,000,000</u> |
|   | (\$12,000,000 for Biennium) |                    |

## EDUCATION RECOMMENDATIONS

There is increasing evidence of accelerated self-styled behavior in Minnesota and America. Because of that trend, more and more people in this state are choosing an entrepreneurial lifestyle. Indeed, the statistics reflect this important trend. Since 1970, for example, the number of new businesses started in this country has increased by 30 percent. This is a rate unprecedented in America's history.

We are further convinced that entrepreneurship can be a learned process. We believe that if Minnesota is going to take initiative in encouraging entrepreneurial behavior -- as we believe it must -- that means introducing the concept early in Minnesota's schools.

Our research shows that there are essentially no opportunities currently available for students at the elementary and secondary level in Minnesota to explore entrepreneurial concepts or skills.

We believe that entrepreneurship can indeed be considered a career option. By planting this seed early, we are enhancing entrepreneurial activity in Minnesota and -- therefore -- contributing in a significant way to new job creation.

Our recommendations reflect our belief that entrepreneurial education must be achieved through cooperation, partnerships and innovative, hands-on experience. This education must be accessible at all educational levels.

We have arrived at these conclusions through research and meetings with numerous representatives of the educational community including Darryl Erdman, Chair in Small Business and Entrepreneurship at the College of St. Thomas, Preston Townley, Dean of the University of Minnesota School of Management, representatives from the Minnesota Department of Education, AVTI's and Small Business Development Centers.

Consequently, we are prepared to make the following recommendations:

1. CURRICULUM DEVELOPMENT (PUBLIC, ELEMENTARY AND SECONDARY)
  - A. That the State create five School-Based Community Development Enterprise demonstration sites in outstate Minnesota communities to provide students with hands-on experience in starting and running a new business in response to community needs.

We recommend an appropriation of \$75,000 in FY 1986 to fund this series of pilot programs, and \$75,000 in FY 1987 to continue and possibly expand the pilot programs to other sites. Students would learn skills such as leadership, risk taking and problem solving, writing a business plan, securing financing, at the same time possibly contributing to the economic development of the community through their new businesses. The CDE's would replicate a successful program initiated in Georgia.

Competitive grants would be administered through the Minnesota Department of Education, requiring evidence of active community support. Communities competing for the grants must demonstrate local participation in the program by the local school district, business community and individuals. The CDE's would work closely with existing Junior Achievement clubs by sharing expertise, and pooling efforts whenever possible.

- B. The state fund incentive grants to stimulate partnership among local schools, businesses and the State Department of Education to introduce the subject of entrepreneurship into the classroom.

The Department of Education would provide small grants of \$5,000 to \$15,000 to local school districts and/or communities to fund innovative partnerships aimed at introducing entrepreneurship as a concept to school children and teachers. Funds would be used for a.) curriculum development, b.) team teaching projects between teachers and local entrepreneurs, c.) internships or sabbaticals for students and teachers in local small businesses. We recommend that one-third of each grant be earmarked specifically for the team teaching component. The incentive funds would be awarded to school districts or communities that demonstrate their willingness to invest in this program by involving educators, students and business people in these innovative partnerships.

(Both of the above recommendations were developed in concert with the Department of Education.)

- C. Enhance entrepreneurial awareness among school children through a touring, dramatic presentation and accompanying study materials developed with the Minnesota Department of Education.

The state would allocate \$35,000 in FY 1986 to fund a traveling team from the Playwrights' Center to write and present a play at 100 elementary and secondary sites throughout the state. The play, tentatively titled "I Can Do It", would -- in dramatic format -- describe the characteristics of entrepreneurship through the experiences of Minnesota entrepreneurs. The program would include development of a study guide approved by the Department of Education to be used by teachers and students preceding and following the performance. Local entrepreneurs would be asked to participate in team teaching as part of this study guide application. The play would be adapted to two age levels, elementary and secondary, to introduce entrepreneurial awareness and the underlying concept that entrepreneurship is, in fact, a career option.

## II. TEACHERS AND ENTREPRENEURSHIP

- A. The state support entrepreneurial ventures by teachers and groups of teachers so that teachers understand the entrepreneurial process and return it to the classroom in curriculum form.

During the 1984 legislative session, funds were allocated to the Council on Quality Education (CQE) to study alternative educational forms, including teacher partnerships (these partnerships were considered a priority by the legislature). Teacher partnerships are essentially the provision of education services by groups of licensed teachers. The partnerships may contract with school districts, individuals or businesses to provide specific services.

We recommend a four-step program aimed at teachers and entrepreneurship. First, an existing organization such as the Educational Cooperation Service Unit (ECSU) or the CQE would disseminate information about the project to state school districts. Second, in cooperation with the Department of Education, study materials would be developed to support this project. Third, we recommend two pilot projects -- one in metropolitan Minnesota and one in greater Minnesota. In these pilots, groups of teachers would form entrepreneurial partnerships to provide educational services such as writing and selling curriculum, teaching specialized subjects or contracting to work with students with special needs. These teacher groups would be required to return the skills and insights they learn as entrepreneurs to the classroom in the form of curriculum development.

Fourth, once Minnesota school districts and teachers are comfortable with these entrepreneurial partnerships, the state would establish a Revolving Loan Fund that makes low interest loans to emerging entrepreneurial teacher partnerships. The \$250,000 loan fund would be administered by a local bank and be contingent on the entrepreneurial teacher partnership receiving ongoing technical assistance, developing a workable business plan, and investing capital in the venture. This revolving loan fund might also have a loan loss reserve component as described in recommendations by our finance subcommittee. PSI, Public School Incentives, a non-profit organization interested in providing education alternatives within the public school environment, could provide administrative direction.

#### D. CONTINUING EDUCATION

We recommend that the required continuing education program for teachers include a CEU component that deals with entrepreneurship and curriculum development for the classroom. The course might best be developed by St. Thomas, Macalester or Southwest State University -- all three institutions have pioneered in this field of teaching. Funding for the CEU course development might come from the above Revolving Loan Fund or existing school district appropriations for CEU coursework.

#### III. POST SECONDARY EDUCATION AND ENTREPRENEURSHIP

Our research shows that schools of business and management have historically focused on training undergraduates and graduates to enter the corporate world as employees and ultimately managers. Furthermore, the expectation among students has been the same. We know, however, that when coursework in entrepreneurship has been offered at the University of Minnesota and other Minnesota post-secondary schools, student interest is high. Indeed, the Harvard Business School -- in its own recent study of alumni activity -- found that one-third of their graduates sampled were entrepreneurs operating their own business.

We recommend that a graduate, interdisciplinary Entrepreneurship Chair in the University of Minnesota School of Management be established. This chair would be a priority in the Governor's proposed endowed chair program. Recognizing that the University is our state's primary research institution, we recommend an emphasis on the study of entrepreneurship and its significant role in Minnesota's economic development.

We further recommend incorporating into the University graduate chair program other initiatives spawned by Macalester College, the College of St. Thomas and Southwest State University including:

- \* Development of an entrepreneurship concentration in the current MBA program at the University through the chair. A secondary goal would be development of a comparable concentration at the undergraduate level.
- \* Development of a mentoring program, pulling first from University of Minnesota alumni and friends who have started and run their own businesses or who have intimate knowledge of the subject. The mentors would be matched with University undergraduates and graduates, thereby providing "real world", educational insights into entrepreneurship as a career. Implementation of the mentoring program would be handled through the chair. We know that the university already has several successful mentoring programs in existence that have proven their worth.
- \* Establish a student entrepreneurship club. Patterned after those successfully developed at St. Thomas and Macalester Colleges.
- \* Explore creation of a seed capital fund, financed in part by interested and successful University alumni. The St. Thomas model for this fund should be seriously considered. \$2,000,000 has been raised by St. Thomas to fund new business ventures designed primarily by MBA students that meet the investment fund's criteria. These seed capital loans can be used for equipment as well as working capital. The St. Thomas fund will take 40 percent equity position in each new venture and the student/entrepreneur will be required to buy out the fund after five years and before ten.

B. We recommend that the Governor and the Lieutenant Governor strongly encourage cooperation in Minnesota's post secondary educational system (AVTI's, community colleges, private colleges, state universities and the University of Minnesota), as entrepreneurship education efforts emerge. This "blueprint" for cooperation would:

- \* Reduce fragmentation among entrepreneurship education programs
- \* Make the best possible use of existing resources
- \* Build on each system's strengths
- \* Encourage sharing of research and new teaching initiatives
- \* Direct the participants to find ways of involving existing Business Advisory Committees in post secondary education more effectively
- \* Encourage cooperation and joint educational ventures wherever possible
- \* Once entrepreneurship education programs are developed at the elementary and secondary level, these would also become part of the state blueprint.

We suggest that this cooperative effort be orchestrated by the Higher Education Coordinating Board. The state's AVTI staff has also volunteered its services to organize these planning sessions.

Budget Request: Entrepreneurial Education

|   | <u>1986</u>      | <u>1987</u> |
|---|------------------|-------------|
| I. Curriculum Development   |                  |             |
| 1. School Based Community Development Enterprises (5 Centers for Outstate Communities)                                  | \$ 75,000        | \$ 75,000   |
| 2. Incentive Grants for Partnership Development (15 grants at \$5,000 to \$15,000 each)                                 | \$200,000        | \$200,000   |
| 3. Entrepreneurial Introduction through Dramatic Presentation (10 sites at \$300 per performance, plus study materials) | \$ 35,000        | -           |
| II. Teachers & Entrepreneurship   |                  |             |
| 4. Program Development for Teacher Partnerships   | \$200,000        | \$200,000   |
| 5. Revolving Loan Fund to Initiate Teacher Partnerships   | -                | \$250,000   |
| 6. Establish a Continuing Education Program in Entrepreneurship for Teaching  | -                | -           |
| III. 7. Interdisciplinary "Entrepreneurial Chair" at the University of Minnesota (as one of 25 new proposed chairs)     | -                | -           |
| 8. Encourage Cooperation and Planning Among Minnesota Schools for Entrepreneurial Education                             | -                | -           |
|   | <hr/>            | <hr/>       |
|   | TOTAL: \$510,000 | \$725,000   |

(\$1,235,000 for the Biennium)

## SUPPORT SERVICES RECOMMENDATIONS

There currently exists in Minnesota, many state, local private and not-for-profit agencies that provide services to entrepreneurs and small businesses. Our Council believes that, while these services are abundant and many are of high quality, the primary problem is underutilization. The Council's Support Services Subcommittee recognizes that underutilization is directly linked to insufficient communication on the availability of these services -- especially communication with Minnesota entrepreneurs and small business owners who need these services most. In forming the following recommendations, our subcommittee realizes that while entrepreneurs in the Twin Cities metropolitan area may have easier access to services than the outstate Minnesotans, even they don't know of all the existing services available. The outstate entrepreneur is in a double bind -- that person often has neither access to, nor knowledge of existing services.

To correct this fundamental deficiency, the Support Services Subcommittee makes the following recommendations. In preparing these recommendations the Support Services Subcommittee tried to avoid any duplication of existing services and programs and where possible have recommended the strengthening of existing facilities.

A. The State Fund and establish a comprehensive data base on support services to entrepreneurs and small businesses throughout the state.

Minnesota already provides an impressive number of high quality services to entrepreneurs and small businesses -- services such as those provided by the Department of Energy and Economic Development, the Minnesota Cooperation Office, SCORE, ACE and SBA, and the Small Business Development Centers around the state. Unfortunately, this wealth of programming seems fragmented and some entrepreneurs and small business people "fall through the cracks" for lack of knowledge of where to go for precisely the services they need. To assist the entrepreneur and small business person in locating the right agency, the Support Services subcommittee recommends the development of one comprehensive data base collection of services to be available throughout the state. Information in this collection would include details on the type of service provided, location of the service, names of the contact people, and any costs that might be involved. It would be regularly updated. The subcommittee further recommends that an evaluation of these provided services be included in the collection.

Budget request: FY 1986, \$10,000 for one full time researcher for six months to survey all existing services and establish data base.

B. The state fund and establish a computer-accessible business information system.

The subcommittee realizes that Minnesota is one of the most computer literate states in the union - both in terms of personal utilization and access to computers. Therefore, a core recommendation of the Support Services subcommittee is the establishment of a computer based information system that would provide data on all facets of entrepreneurship and business development from developing

a business plan, to market research, to cash flow analysis, to growth and expansion issues. The system would also include existing services available to meet the needs of entrepreneurs and small business people in Minnesota. (See recommendation A). To accomplish this, the subcommittee recommends expansion of a system already in place at the Minneapolis Public Library. This system, called Inform, should be expanded to include information on services available and should be accessible throughout the state's library system. It is the feeling of the subcommittee that the library is a non-intimidating setting for entrepreneurial research and that the state's library system is accessible to over 93% of the population. The subcommittee specifically recommends that the Minneapolis Public Library work with the Minneapolis Community Development Agency's Small Business Resource and Development Office on the expansion of this resource.

Financial requests for this component include the expansion of the Minneapolis Public Library's Inform program and the creation of a pilot program in an outstate library.

Budget request: FY 1986 and 1987, \$275,000

C. The State co-fund a network of management assistance programs or cooperation offices throughout the state.

The Council is convinced that -- even more than sufficient capital -- it is management of the capital and management of the merging business that is the critical factor in business success or failure. Believing that, the Support Services subcommittee recommends the creation of community based management assistance programs. These programs would be designed to give Minnesota entrepreneurs the person-to-person contact necessary for the successful start-up and operation of their enterprises. Recognizing the demographic distribution of the state's population and the widely differing regional needs, the subcommittee recommends the creation of a three tier management assistance program to include:

1. The establishment of regional cooperation offices in six Minnesota communities where these communities demonstrate they are willing to invest in such a program, both in dollars and in human services. Following the guidelines established by the Lt. Governor, these cooperation offices would spring from bottom up, grass roots collaboration and not from the state hierarchy. Specific criteria would be established for these offices by the state in cooperation with local communities. Based on the successful operation of the Minnesota Cooperation Office, the subcommittee recommends that MCO's office be expanded to provide assistance to local organizers on the means of setting up an efficient and effective cooperation office.

The subcommittee recommends the funding for these six regional offices during the next biennium. For each office the subcommittee recommends three year state assistance grants with funding for the first year to be 85% of the operating budget, 80% for the second year, and 60% for the third year. The remaining funds would come from the community in which the Cooperation Office is located. In communities where some management assistance to entrepreneurs is already available, the subcommittee recommends that those services provide an integral part in the planning of the cooperation office.

The subcommittee strongly recommends that this funding assistance be effective for regional cooperation offices already in existence but who are having financial difficulties -- such as the Duluth Cooperation Office.

2. The establishment of community cooperation offices. For many of Minnesota's small and medium size communities, local funding is not adequate to support a local cooperation office. Of the 800 municipalities in Minnesota, 500 have a population of under 1,000 people. For these communities, the subcommittee recommends the establishment of community cooperation offices where a minimum of 3-5 communities join together to develop and maintain the office. The subcommittee recommends funding assistance for 9 such community offices. The same criteria and the same assistance from the Minnesota Cooperation Office would apply to the community offices.

3. The establishment of entrepreneurial field agents in conjunction with the Small Business Development Center, Agricultural Extension Service at the University of Minnesota. Recognizing the need to reach these small communities throughout the state the subcommittee recommends the establishment of a pilot program with the SBDC that will permit county extension agents to increase their ability to identify small business needs and opportunities and to properly refer entrepreneurs to the most appropriate and convenient source of assistance. The subcommittee recommends an appropriation of \$50,000 to the Small Business Development Center, Agricultural Extension Service at the University of Minnesota to cover the costs for training, material preparation and staff coordination.

Recognizing that communication among existing Minnesota agencies that provide services to entrepreneurs is necessary, the subcommittee recommends that periodic informational seminars for providers be conducted. This type of communication would enhance thoughtful referrals and bring entrepreneurs together with the precise services they need more quickly. Throughout the course of the subcommittee's work, the frustrations that entrepreneurs experience while trying to locate assistance was a common theme. The series of referrals given to entrepreneurs by various agencies is indicative of a lack of coordination of activities and general lack of information regarding the scope of programs offered both in Minnesota's public and private sector.

The subcommittee recommends that the Minnesota Cooperation Office coordinate these quarterly sessions working in conjunction with the Department of Energy and Economic Development.

Budget request: FY 1986, 1987

- A. Six regional cooperation offices (based on an annual budget of \$150,000 per year, state funding of 85% the first year, 80% the second year). \$1,440,000
  - B. Nine community cooperation offices (based on annual budget of \$75,000 per year, with state funding of 85% the first year, 80% the second year). \$1,080,000
  - C. Entrepreneurial Field Agent Program \$ 50,000
  - D. Counseling and assistance in organization of cooperation offices and in organizing information seminars to the Minnesota Cooperation Office \$ 60,000
- \$2,630,000

D. The Department of Energy and Economic Development proceed with the computerization of relevant business data for the State of Minnesota and the monitoring of economic indicators.

Critical to economic forecasting and planning is the availability of accurate and comprehensive data on business trends throughout the state. The Support Services Subcommittee supports the information collection initiative taken by the joint program of the Secretary of State's Office and the Department of Energy and Economic Development and recommends the expansion of this program. We further recommend two-fold expansion: in addition to information on new business start ups including name, location, product or service, and number of employees, the survey should include information on what services were used during the developmental stages of the enterprise and what services were not available and in what geographic areas. Second: just as colleges and universities conduct exit interviews with students leaving institutions of higher learning, the state should survey businesses leaving the state to identify the reasons for their actions. Information on companies closing and leaving the state should be monitored and analyzed, particularly identifying the economic effect these movements have in particular geographic areas. For example, since January of 1984 five businesses have closed in Bricelyn, Minnesota, resulting in a reduction of 15 jobs in a work force of just 80 people. In a community as small as Bricelyn, the economic impact of their local businesses loss has been sorely felt.

Information obtained by this data collection should be used in identifying current business trends and state economic policy initiatives.

E. The state should expand the existing DEED marketing and communication program to bring Minnesota entrepreneurs and small businesses up to date on services available to them.

As we have discovered, one of the major problems of underutilization of services available throughout the state is a lack of information and awareness. In order to make these services better known, the support services subcommittee recommends an expansion of the marketing and communication program currently being conducted by the Department of Energy and Economic Development. This expansion would include, but not be limited to, interlocking brochures, an ad campaign and radio spots focusing on the special services available to Minnesota entrepreneurs and small business owners. This communications effort would build on the current efforts of DEED in this area, namely its print catalogue of services to entrepreneurs and small business people.

Budget request: \$50,000

F. Fund the establishment of an Institute for Invention and Innovation.

Minnesota's inventors are of equal importance to the state's economy and expansion of its job market as the entrepreneur. While a vast number of programs exist for the entrepreneur and small businesses there is no program in the state that meets the specific needs of the inventor. To correct this deficiency the Council recommends funding for the Institute for Invention and Innovation. Funding is being requested for the start up of the invention center in Minneapolis and in the Duluth/Iron Range.

Budget Request: \$1,200,000

Budget Request: Support Services

|   | <u>1986</u>      | <u>1987</u>      |
|---|------------------|------------------|
| 1. Compilation of Data Base Material      | \$ 10,000        | -                |
| 2. Computer Delivery System               | \$137,500        | \$137,500        |
| 3. Management Assistance Programs         |                  |                  |
| a. Regional Cooperation Offices           | \$720,000        | \$720,000        |
| b. Community Cooperation Offices          | \$540,000        | \$540,000        |
| c. Entrepreneurial Field Agents           | \$ 50,000        | -                |
| d. Coordination/Special Assistance        | \$ 30,000        | \$ 30,000        |
| 4. Marketing Communication                | \$ 30,000        | \$ 20,000        |
| 5. Institute for Invention and Innovation | <u>\$600,000</u> | <u>\$600,000</u> |
| TOTAL:                                    | \$2,117,500      | \$2,057,500      |

(\$4,175,000 for Biennium)

Governor's Council on Innovation and Entrepreneurship

Carol Pine, Chair  
Pine and Mundale

Robert J. Hiebeler  
Arthur Andersen & Company

Carol Lilyholm  
Markethouse

Sally Adkins  
Sally Adkins Enterprises, Inc.

Michael Horn  
Peat, Marwick, Mitchell & Co.

Victoria Warner  
Programmed Management, Inc.

Gail Bergsven  
Control Data Business Advisors

Tom Westman  
Minnesota Greenery

Betty Walton  
Minnetonka, MN

Gary Schmidt  
Mankato AVTI

Carolyn Larson  
Mainstay, Inc.

Richard Eichhorn  
Bloomington, MN

Dan Ferber  
Institute for Invention and  
Innovation

Mark Ludlow  
Ludlow's Resort

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Trend Enterprises, Inc.

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Women's Economic  
Development Corporation

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Beckwith Horton  
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Oscar Howard  
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Tracy Beckman  
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Rondi Erickson  
Bay West, Inc.

Bonita Nelson  
Paper Capers

Phillip Riveness  
State Representative

Margaret Marvin  
Warroad, MN