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Universities Open for Business – and Profits

By Howard Amos

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Universities across the country are taking advantage of a law passed last year allowing them to invest directly in small, innovative businesses — with mixed results. The legislation, supported by President Dmitry Medvedev, helps create jobs, additional income and stimulate technological innovation.

Formerly, higher education institutions could only create noncommercial partnerships or rent space to companies, but the new law allows for direct investment, a greater role in the business and a share in success.

Nikita Petrov, a post-graduate student at Novosibirsk State Technical University, works up to four days a week in a small business developing novelty lighting. Some evenings he goes straight from his office to his studies. “It's a lot of work,” he said, “and one is forced to divide one's time carefully.”

Petrov's company is called EON+ and has been set up to develop RGB technology — a way of manipulating color to produce decorative lights. Petrov wants to expand the company's reach beyond Novosibirsk and plans to keep working there after he gets his degree in 2013.

In addition to Petrov's venture, there are eight other companies at Novosibirsk State Technical University developing businesses based on concepts as varied as water purification, transistors for regulating temperature and power supplies for audio systems.

Leonid Lnogradsky, head of Samara State Technical University's Computer Center, said that although his university created four small businesses under the new law, they have about 40 firms working in the "old style." "We won't rush toward the new direction," he said. But "after some time, the majority of our university businesses will be in this new form."

Ramping Up

In January, Education and Science Minister Andrei Fursenko said that 200 small businesses had already been started under the new regulation. By Nov. 1 there were more than 500, according to the ministry's web site.

Though the number of startups is impressive, moving to the manufacturing phase is another story. Petrov said his company, which has existed for 11 months, is still in the development stage and has not yet begun production.

Many university representatives who spoke with The Moscow Times said it was too early to be talking about profitability.

Victor Tskhe, vice rector of Science and Innovation at Tomsk State Technical University, said that 70 businesses functioning under the old model were very profitable, while their 15 to 18 new businesses were "only just beginning to stand on their own two feet."

Nikolai Kozlov, director of Bauman State Technical University's Innovation Center in Moscow, drew a distinction between those businesses engaged with simple commercial activity and those focussed on innovation and complex products — which face a very complicated market entry while the economic crisis is not quite over.

Appearance of Change and Investment

Lnogradsky said that at Samara University there was some overlap between old-style companies and new ones. "The government makes a new law, and you simply change your old business a little — you change your black boots to white, but you continue to drink at the same bar," he said.

He gave the example of an oil company with which his university had a longstanding intellectual and personnel exchange, albeit on a small scale. Now the university has a small innovative business within the company that employs many more staff and is much more dynamic. "I see the boots, though," Lnogradsky said.

Large-scale direct financial investment in the new ventures by universities is uncommon.

Petrov's Novosibirsk company needs 6 million rubles ($190,000) of investment over the next

three years, he said. They are hoping to receive part of this money from the state-funded Start Program for the support of small enterprises in the field of science and technology, and the remainder from private investors.

Novosibirsk State Technical University will supply the company with premises, equipment, Internet connection, laboratory space, legal consultation and the opportunity to consult with specialists in the field. "Unfortunately our university cannot have a big financial influence, and we are forced to seek help from investors and various funds," Petrov said.

The actual sums of money being invested by universities in these new companies are very difficult to quantify, said Igor Rozhdestvensky, director of St. Petersburg State University's Business Incubation Center. "Frankly not too many universities use such enterprises as ventures that can lead to sizable profits in the near future," he added.

In many cases a university will not "pay the expenses of the company or directly invest, but instead use its reputation and partnerships to help these companies get external funding," Rozhdestvensky said.

Staffing and Structure

Yelena Zhitenko, director of Novosibirsk State Technical University's Innovation and Technology Center, said the potential for employing students once they graduate was significant. More than 30 percent of the employees of her university's nine small businesses were students, she said.

Zhitenko added that the usual model for creating a startup was for a professor to develop an initial idea and then gather students to work in the business as it takes shape.

At present there are no students participating in Bauman State Technical University's five functioning small businesses, Kozlov said. When the product has been developed and begins to be sold, only then will young people appear in the businesses, he said, "and exactly when that will be is extremely difficult to predict."

Tskhe said that half of Tomsk's new innovative businesses established since 2009 were student-led.

Teething Pains

Students and professors may have the desire and intellectual potential to start businesses, but often the lack basic entrepreneurial skills, said Rozhdestvensky, whose Business Incubation Center provides training, help in identifying problems, business models and other forms of assistance. Many universities have similar programs.

Though strongly supported at the highest political level, the new law has received some criticism. Federation Council Speaker Sergei Mironov said during the debates over the law that it might provoke "an upswell of conflict and scope for corruption," RIA-Novosti reported.

Though he claimed overall success, even Fursenko admitted in an interview published on the ministry's web site in November that "some fine-tuning is essential."

Zhitenko of Novosibirsk said a serious problem is the “absence of financial support for startup innovation firms.” The law needs serious corrections and additions, she said, “for example in tax policy.”

Vyacheslav Semkov, director of the Innovation Center at Chuvash State University, where there are four new small businesses, said they initially had problems with rent, premises and equipment.

Rozhdestvensky of St. Petersburg State University said that apart from “political reasons, the motivation for universities [to invest in such companies] is basically unclear.”

These issues may dampen some enthusiasm for the new opportunity, but many remain encouraged.

Lnogradsky said that Medvedev's measure is helping “make a bridge from pure science to ... a final product.” Ten years ago many small businesses in universities closed down, now the reverse process is occurring,” he said.

Konstantin Sholmov, director of the public relations department at St. Petersburg State University, raised a more fundamental issue. Many academics are elderly and conservative, he said, and “are not interested in the market.” He cited a survey from 2008 where only 2 percent of professors expressed an interest in business. “The problem is psychological,” he said.

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