

**Purdue University**

**Faculty-owned and Operated Businesses:  
Policy, Guidelines, and Procedures**

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## **Faculty Owned and Operated Businesses**

### Introduction

Purdue's research mission involves components of both basic and applied research. A cardinal feature of applied research is the utilization of the results to solve a real-world problem of societal interest. It follows naturally that technology transfer activities are a companion to the applied research mission. The technology that is exported from the University has direct and indirect economic impact on the community, state and nation. Therefore, the research activities of the faculty have an important impact beyond the usual academic results.

Faculty research activities, of course, are directly involved in the education of graduate students—teaching them to do research. Just as important, faculty research results appear in the classroom, at both the graduate and undergraduate levels, to bring new approaches to old and new problems. The quality of the undergraduate and graduate curricula is directly related to the research activities of the faculty.

The greatly increased emphasis on research in the university has forced faculty members in the major research institutions of the nation to become entrepreneurs in search of support for their research activities. Outfitting laboratories with needed equipment and instrumentation has become enormously expensive, and resources must be found to support the graduate students, technical staff and post-doctoral associates commonly needed in the laboratory. As a general rule, tax-based support for the public universities is directed toward their instructional programs, leaving it up to individual faculty members and interdisciplinary groups to attract financial support by initiating proposals and responding to requests for proposals from funding agencies.

Both government agencies and research-oriented industries have provided this sort of support over the past five to six decades. Unfortunately, the total amount of money available for university research funding, while it has increased, has lagged far behind the increase in the number of qualified faculty applicants. Entrepreneurial faculty members have had to pursue these dollars in a variety of ways. They have had to invest more time and effort in preparing proposals. They have established consulting relationships with industry which have both brought their expertise to bear on applied industrial problems and led to industry funding of university research.

Another device for obtaining research dollars as well as bringing the knowledge of university faculty members to the marketplace of both ideas and products is the establishment and operation of businesses by university faculty members. These businesses, founded by faculty and their students, located near the university are a desirable arena in which the faculty may contribute to the welfare of the university, state, and community. A significant benefit to the state and local community accrues in the form of a broader tax base induced by the economic activities of the businesses. These businesses are often based on technology owned by the university that was developed in the course of faculty research or educational activities. As a result, the businesses provide a conduit for transfer of university-owned technology into the private and public sectors. The businesses also create a benefit to the university in an indirect fashion, namely, a positive effect on the state and local economies which is eventually translates into a positive effect on the university budget.

Inevitably, the participation of faculty in entrepreneurial outside activities raises the possibility of conflict of interest between the faculty member's university responsibilities and the activities of the business. Purdue has developed policies and procedures that enable the faculty member to identify and manage such conflicts should they be proven to exist.

Changes in both the character of scientific research and in the social and economic conditions under which the research is done have mandated these new approaches to funding, and have established these new roles and relationships among the faculty, the universities, government and industry. Any time changes of this magnitude take place there is risk: risk that the new system will malfunction; risk that we will abandon standards and norms which have served us well for many years; and risk that some individuals will take improper advantage of the new system.

Simple awareness of these risks is the first and most important step in minimizing them. This awareness on the part of Purdue University's faculty and administration has caused them to be cautious, prudent and conservative in designing policies to govern these new roles and relationships. In the past, Purdue has attempted to avoid any potential conflict of interest; today, however, it is believed that potential conflicts of interest can be managed. We are convinced that adherence to the policies which have been and are being articulated can and will produce benefits for all concerned: more opportunities for research and development for all members of the faculty; cooperative public-private research and development initiatives which will bring the benefits of research more promptly to the consuming public; jobs for scientific and technical personnel, including graduate students; and an increase in tax revenues for the state and localities in which faculty-founded companies are situated. We are committed to the principle that these benefits can be produced by faculty members who meet their academic and public obligations and responsibilities fully, and with honor and integrity.

The Purdue University Administration while recognizing the potential advantages of faculty engaging in outside entrepreneurial business activities cannot be a sponsor of such programs. The University, however, has developed a set of procedures that permits an orderly request by a faculty member to engage in such activities. Such requests are handled on a case-by-case basis because of the highly individualized nature of entrepreneurial activities.

### **University Policy Statement on Faculty-Owned Businesses**

Purdue University will carefully consider all requests by faculty members who want to create businesses and enter into entrepreneurial activities. Given that one of the responsibilities of faculty members is to carry out service to the nation, the state and local community, the creation of new economic opportunities can be viewed as one of several approaches to providing this service. Although such activities are not appropriate for all faculty members, they do mesh well with the research and instructional commitments of some. Entrepreneurial activities by members of the faculty, done within the framework and guidelines of the University, can be a benefit to the University and the citizens of Indiana, have a positive economic impact on the state and the local community, and enhance the quality of education for students. A key requirement is that care must be taken to separate clearly and cleanly the personal financial aspects of the entrepreneurial activities from the faculty member's university activities. Faculty must also pay careful attention to their commitment to their university duties and responsibilities.

## **Character of Faculty Businesses**

Purdue University faculty members have three major areas of activity: instruction, research and service. It is desirable that outside activities by members of the faculty be related to their areas of expertise as practiced in their daily professional lives at the University. This assures that the outside activity will support, reinforce and enrich the professional lives of the faculty at the University.

Traditionally, Purdue faculty members have contributed to the University's mission in different ways. Some are more involved in classrooms and laboratories serving undergraduates and graduates. Still others devote the majority of their time in the pursuit of scholarly and research endeavors. Most combine these roles by following the traditional teacher/researcher model. Faculty members provide a variety of services to the community, the state and the nation, and to their professional organizations. The university is greatly enriched by this diversity of talents and activities of its faculty.

A further way in which some members of the faculty contribute to the University's missions of discovery, learning and engagement and to the economic vitality of the community and state is by functioning as consultants or business entrepreneurs.

It is appropriate that all members of the faculty have both the opportunity and the responsibility of contributing to the varied missions of the University in the ways best suited to their individual areas of interests and talents.

Therefore, when a faculty entrepreneur starts a business, especially one located in the Purdue Research Park, the basic character of that business should most likely be closely associated with the academically-related expertise of that faculty member. When such a synergistic relationship exists between a faculty-initiated business and the missions of the University, the likelihood of desirable interactive effects between the University and the business is enhanced.

It is essential that the faculty member contemplating the start of a business engage in detailed discussions with the Department Head and Dean involved. At that time the issues concerning the congruency of the business mission with those of the University and the faculty member's responsibilities would be determined. If these issues can be positively addressed, then the approval process for faculty business activity can be initiated.

Although entrepreneurship is not for everyone, it should be permitted amongst those so inclined as part of Purdue's interest in developing a modern, diverse and cosmopolitan faculty. Even though permitted, such entrepreneurial activities should not be confused with assigned duties of the University.

## **Purdue Position on Faculty Commitment to Businesses**

For many years it has been the rule that participation of Purdue faculty members in outside activities should not interfere with University responsibilities. In addition, the outside activity must meet the test of appropriateness to the faculty member's professional background and commitments and must be approved in writing by his/her Department Head and Dean, and by the Provost.

In the start-up phases of the business, when more time and attention are required of the faculty member, he/she may be able to arrange a leave of absence from his/her academic unit. Such a procedure preserves the faculty member's status with the University while permitting full-time attention to the business for a limited and agreed-upon period. When the business is running in its more normal mode, the faculty member, with the prior concurrence of the academic unit, may be able to return to either full- or part-time status with the University. Whatever method the faculty member proposes for operation of the business must be agreed to and approved by the University.

Faculty should realize that entrepreneurial activities are often best pursued after they have established themselves as teachers, scholars, and providers of services of distinction and have demonstrated the importance of their long-term and continuing involvement with the University. It is strongly advised that junior faculty devote their full attention to that process.

### **Purdue University's Position of Conflict of Interest**

The intent of current University policy on conflicts of interest is not to eliminate all possible conflict of interest situations, an obvious impossibility. Rather, it is to enable faculty members to recognize situations that may be subject to question, to take steps to minimize such conflicts and to ensure that such situations are properly reviewed and, if necessary, monitored and supervised. All potential conflict of interest situations will be examined to assure that all relevant activities are conducted in a manner consistent with University and public values and interests.

In general, special efforts must be taken not to place competitive and, perhaps, even conflicting demands of an entrepreneurial activity upon University colleagues, students, or professional staff. The use of University facilities and equipment is not for unauthorized or conflicting uses and must be compensated at approved rates.

Executive Memorandum C-1 and the University's conflict of interest policy and operating guidelines must be reviewed and followed by all faculty who are taking steps to initiate outside entrepreneurial activity.

### **How to Start a Business: Recommended Procedures**

If a faculty member wants to create a business/company, there is a suggested procedure to follow. After the faculty members have convinced themselves and their families that creating a business is a desirable activity, they should make contact with their Department Heads and Deans. Next, they must disclose all potential conflicts of interest and obtain permission from the University to engage in outside activities. This involves the completion and submission of Form 32A and Form 32B (which should be obtained through your business office). If the company is contracting for research with the University, especially with their own group, they will be required to complete and submit a Form 35 for Full Financial Disclosure. Once these forms are submitted, they will be reviewed by the Office of the Vice President for Research for the Provost. If necessary, a memorandum of understanding will be negotiated involving establishment of a faculty committee to monitor involvement and progress of any students. When University-owned technology is involved and licensing is required, it is necessary to contact the Purdue Research Foundation's Office of Technology Commercialization for the appropriate license agreements. In addition, if University-owned computers, equipment, or

telephones are involved in the conduct of faculty-owned business, the University must be compensated for such use and the issues surrounding the use of licensed software resident on the University computers must be resolved in advance.

Before actually starting their businesses, faculty should seek general business counsel and advice.

The following graphic is a suggested action chain.

# How to Start a Faculty-Owned Business

*Action Chain*



