

Testimony of Elana Fine, Managing Director, Dingman Center for Entrepreneurship,
University of Maryland's Robert H. Smith School of Business
Before the U.S. House of Representatives Committee on Small Business

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Chairman Chabot, Ranking Member Velazquez and members of the committee,

Thank you for inviting me to testify before you today. I'm Elana Fine, managing director of the Dingman Center for Entrepreneurship at University of Maryland's Robert H. Smith School of Business. I have a bachelor's degree in finance from the University of Maryland and an MBA from University of Chicago's Booth School of Business. Throughout my career in technology consulting and investment banking, I've worked with hundreds of startups and venture-backed companies and am therefore well versed in understanding the challenges and opportunities facing startup companies.

To provide a little context, the Dingman Center is one of the nation's preeminent institutions where the research, education and practice of entrepreneurship are pursued vigorously. We develop and execute curricular and extra curricular programs to inspire and equip the next generation of entrepreneurs. Twenty-eight years ago, before entrepreneurship was as en vogue as it is now, a visionary dean named Rudy Lamone, partnered with Michael Dingman, founder of Signal Corporation to establish the Dingman Center. As one of the first university-based entrepreneurship centers in the country, the Dingman Center has consistently been the gold standard for teaching entrepreneurship. This past fall, the Global Consortium for Entrepreneurship, a member organization of more than 200 entrepreneurship centers worldwide, awarded the Dingman Center its 2014 NASDAQ award for Entrepreneurial Excellence, for our unique breadth of campus, regional, national and international programs.

My role at the Dingman Center includes oversight of our student venture incubator, the Dingman Center Angels investor network, business competitions and integration with the Smith School entrepreneurship curriculum. I'm responsible for developing relationships with the broader community of entrepreneurs, alumni and corporate partners to build a bridge between our campus and the local startup ecosystem. I also serve as an adjunct faculty member of the Smith School.

Our programs are focused on guiding student entrepreneurs through the venture creation process. We listen to their initial ideas, match them with experienced advisors and mentors, provide a toolset to conduct customer research and develop new business models, suggest ways to prove their concept in small ways and provide access to seed capital. In our 28-year history, thousands of students have walked through our doors to start a business or just to be exposed to entrepreneurship in a small way.

I've been asked to give an overview of entrepreneurial activity from a university perspective. I recognize that the macro level of activity can be hard to quantify and assess whether we are headed in right direction. Based on the pop culture success of television shows like "Shark Tank" and "Silicon Valley," the proliferation of technology incubators, co-working spaces, and downtown innovation hubs, and the newsworthy valuations of companies such as Uber, SnapChat and WhatsApp, we might believe that everyone is working on a startup. Then we look at statistics like the Kauffman Index on Entrepreneurial Activity, which showed a decline from 2011 to 2013 and wonder if we are doing enough. Or we look at 2013 statistics from the Global Entrepreneurship Monitor and see that Sub-Saharan Africa has more than double the early stage entrepreneurial activity of North America. However, this activity is more necessity driven than innovation driven due to lack of other job prospects. From this perspective, a decline in entrepreneurial activity might also be seen as an indicator of an improving economy as employees have better job prospects and don't have to spend their life savings to hang their own shingle. The data is hard to analyze because we don't know the right level of entrepreneurial activity. As we would say in startup terms, we still don't know the metric that matters. So, I'm here today to give you a more grassroots perspective on what I see as leading indicators for the future of entrepreneurship.

At the Dingman Center, we separate our students into three categories and focus on creating programs that will make the most significant impact on these various groups. The first category is the one that has created the "Social Network" misconception – the belief that there are thousands of Mark Zuckerbergs in dorm rooms across campus who will launch the next Facebook. Students, venture capitalists, entrepreneurship centers and policy makers must recognize that Facebook is an outlier. We would never be successful if we were trying to pick the next Facebook, so we spend more of our time on the other groups.

The next category we think about are the students starting businesses while in school. Every year we see panoply of new apparel companies, mobile applications, tutoring services, dating platforms, and food concepts. We have seen university support increase to match student interest and demand in these venture creation activities. Although a small sample, the data from the Dingman Center shows interest in our venture creation programs grew from 161 students in 2012/2013 to almost 400 students in 2014/2015. Students run these businesses for two to three years until graduation where they often decide that this isn't the right business to pursue after graduation. The company might not be a success in standard terms, but as educators we have provided a skill set that we expect will be used for a startup now or 10 years from now.

Our best example of this category is University of Maryland alumnus Kevin Plank, who ran a campus flower delivery service called Cupid's Valentine. After graduation, instead of solving the problem of expensive flowers, Plank decided to

solve the problem of soggy cotton t-shirts and turned his savings from Cupid's Valentine into the seed money for Under Armour. In the many times I have heard Plank tell his story, he has cited the lessons he learned from his first student business and the courage that business gave him to start Under Armour when he had the idea for a stretchy performance t-shirt. Although we hope to have many Kevin Planks walk through the doors of the Dingman Center, we would also like to see more of them stick with their student businesses, which I'll address later.

The last category of student entrepreneurs feed the entrepreneurial labor pool. These students might work on their own businesses or hold internships at local startup companies. The challenge for these students is that startups can rarely pay market rates, so they often have to forego opportunities to take higher paying internships or even summer jobs at pizza shops. We've created several programs to subsidize these students to work at startups to try to replicate the Silicon Valley culture where employees often spin out their own startups. We believe it is the cycle and culture of entrepreneurship that creates innovation hubs, rather than any one specific program.

All of these buckets of students represent the future entrepreneurs, but I caution focusing too much on the first category. Instead, there are a number of initiatives that can increase exposure and odds for success of the last two categories. For example, the National Science Foundation's ICorps program is a perfect example of federally funded programs that can increase the odds of success among early stage university spinouts. ICorps is designed to help federally funded academic researchers with ground-breaking innovations determine the commercial viability of their innovations. This same approach, based on Silicon Valley-tested startup best practices, is now being implemented across many agencies. While it started at NSF, NIH, DOE and other agencies are embracing the process. This program has the potential to fundamentally change the way we transfer technology from our world-class universities and federal labs. Furthermore, the same program has potential to greatly improve the highly regarded SBIR/STTR programs that were created to support small business innovation.

However, programs like ICorps focus on innovation that leads to entrepreneurship. On campuses, we need similar programs that increase the entrepreneurship that leads to innovation – those that encourage students to test the waters on identifying a problem in the market and designing and testing a solution. We know there are more than enough problems to solve. Sample programs might provide scholarships to students pursuing entrepreneurial activities or loan forgiveness so students can choose to work at startup firms. As we seed more entrepreneurs, we will also need more funding mechanisms to substitute for what we often call a friends-and-family round of financing. Without an initial \$10,000 to \$100,000 it is nearly impossible for a young entrepreneur, who is burdened by student loans and has no savings or credit, to build a product and test customer acquisition. Banks, angel investors and even granting institutions do not have vehicles to fund the typical student businesses. Corporations, like Capital One recognize this need and are leading the

way for local entrepreneurs by providing \$500 to \$2,500 seed grants for our student entrepreneurs.

In addition to exposing young people to the entrepreneurial process, matching them with experienced mentors and increasing their access to funding, we also need to be creative about how to limit downside risk. The success and wealth of Bill Gates, Steve Jobs and Mark Zuckerbergs of the world certainly attracts entrepreneurs, but the downside risk keeps many capable operators on the sidelines. We characterize and celebrate entrepreneurs for their ability to take risks, but there could be innovations that never get to market because the perceived risk to someone's family might be seen as too high. I'd encourage the committee to consider policies that limit downside risk along with those that encourage the upside risk.

Therefore, as you embark on your committee's activities, I'd encourage you to consider the following thoughts and recommendations:

- Few of us are stock pickers. Instead of picking winners and hoping for short-term rewards, we need to seed programs that expose more students to entrepreneurial activities and equip them with the tools to vet ideas early and increase the odds of success.
- Recognize that failure rates will always be high and that success in entrepreneurship can also be viewed by total births and deaths because it means there are more companies in the field.
- Consider programs that provide non-dilutive funding substitutes to friends - and -family funding and angel funding for a broader spectrum of businesses. Keep in mind that entrepreneurs are like marathon runners and come in all shapes and sizes.
- Think creatively about "apprentice"-like programs in high growth startups that might increase the entrepreneurial labor pool.
- Consider how to limit downside risk that might keep capable entrepreneurs on the sidelines.

In a Washington Post article, I wrote that teaching entrepreneurship is like teaching a child to dive. You give them a little taste off the side in shallower waters and if it takes, they feel comfortable to take the risk off the higher diving board. This is how we teach entrepreneurship – we expose our students to a non-linear way of thinking and problem solving. Our challenge, as outlined above, is to transition these students from the safe risk-taking environment of an academic institution, to the business world. I look forward to working with you to create policies to build on the momentum we are seeing on campuses nationwide.