

U.S. HOUSE OF REPRESENTATIVES

**SUBCOMMITTEE ON TECHNOLOGY AND INNOVATION
COMMITTEE ON SCIENCE, SPACE, AND TECHNOLOGY**

HEARING CHARTER

Creating and Growing New Businesses: Fostering U.S. Innovation

**Wednesday, November 2, 2011
10:00 a.m. – 12:00 p.m.**

2318 Rayburn House Office Building

I. Purpose

On Wednesday, November 2, 2011, the Subcommittee on Technology and Innovation will convene a hearing to examine the current state of small, innovative startup companies, which are engines of both transformative innovations and job creation. The Subcommittee will seek testimony on obstacles limiting those with the ideas and desire to either start a new company, or take a fledgling company to a place of rapid growth.

II. Witnesses

Mr. Brink Lindsey, Senior Scholar in Research and Policy, Ewing Marion Kauffman Foundation.

Mr. Julian Mann, Co-Founder and Vice President, Product Development and Research, Skybox Imaging.

Mr. Ray Rothrock, Partner, Venrock.

Mr. Steve Dubin, Former CEO, Martek Biosciences; Senior Advisor to DSM Nutritional Products.

III. Background

New businesses have historically played a major role in advancing both job creation and innovation in the U.S. economy. According to research conducted by the Kauffman Foundation and the U.S. Census Bureau's Business Dynamics Statistics, startup companies (those in their first year of existence) added an average of 3 million jobs per year between 1977 and 2005, whereas existing companies (those aged one year and older) experienced net job losses over the

same period.¹ By their very nature, new businesses advance innovation because entrepreneurs identify market opportunities that current businesses are not addressing and create companies to satisfy these market opportunities. Through the last decade, many business efforts that started with an individual or small group have grown and transformed the way we live our lives. For example, social media startups such as Facebook and Twitter have introduced new ways to communicate both personally and professionally.

Innovation and High-growth Industry Startups

The Organization for Economic Co-operation and Development (OECD) defines innovation as the introduction of a new or significantly improved product (good or service), process, or method.²

Examples of innovation include the development of new products which have the capacity to fundamentally change the market, such as the personal computer or the semiconductor. Alternatively, innovation can lead to improvements of existing products and services, such as improving the speed of microprocessors, or the functionality of software. An example of process innovation is the implementation of lean manufacturing.

Innovative companies have played a central role in the growth of the U.S. economy by providing mid-term and long-term employment and income growth.³ Indeed, innovation has been responsible for approximately 80 percent of the growth in the U.S. economy since World War II⁴ and new businesses in high-growth sectors have contributed significantly to the country's innovative capacity.

Over the past decade, the high-growth sectors of the U.S. economy have centered on information technology, healthcare, energy, defense and advanced manufacturing. These sectors are dependent on the output of scientific and engineering-related research and development, and many small companies are also started based on intellectual property derived from basic research conducted at universities and other research organizations.

Job Creation

According to the Kauffman Foundation, job creation from startup companies remained relatively consistent between 1977 and 2005, even during periods of recession.⁵ However, in recent years,

¹ T. Kane, "The Importance of Startups in Job Creation and Job Destruction," Ewing Marion Kauffman Foundation, July 2010; http://www.ces.census.gov/index.php/bds/bds_home.

² "The OECD Innovation Strategy: Getting a Head Start on Tomorrow," OECD 2010.

³ R. Atkinson, D. Castro, S. Andes, S. Ezell, D. Hackler, and R. Bennett, "Innovation Policy on a Budget: Driving Innovation in a Time of Fiscal Constraint," Information Technology and Innovation Foundation, September 2010

⁴ Information Technology Industry Council, www.itic.org

⁵ T. Kane, "The Importance of Startups in Job Creation and Job Destruction," Ewing Marion Kauffman Foundation, July 2010; http://www.ces.census.gov/index.php/bds/bds_home.

startup companies have witnessed a significant decline in job creation.⁶ While companies are still being created, they are starting up with smaller numbers of employees, and not adding employees at a rate that has been historically characteristic of small business growth⁷. This trend is troubling for the long-term outlook of job growth from small businesses. While the current economic environment may have exacerbated the situation, this data suggests the pattern predates the recent recession, leading to questions about whether a systemic change in the relationship between new company formation and job creation may be occurring⁸.

IV. Issues for Examination

Many factors influence those with innovative ideas who want to start companies. The Committee is interested in understanding how local, state, regional, and federal policies influence the environment for new company creation or growth. Issues for examination within this hearing include:

New business formation, job growth, and innovation

- What is the historical relationship between new business formation and job creation in the country?
- What is the role of new businesses in driving the nation's innovative capacity and competitiveness?
- Do existing policies adequately address recent trends in job growth affiliated with new businesses?
- What challenges are unique to entrepreneurs in the technology and innovation sector?

Policy obstacles and opportunities

- Local, state and federal stakeholders are all interested in both making targeted investments and removing barriers to companies starting and growing. What are the most significant policy levers?
- How do federal policies influence potential research partnerships between start ups and research institutions, or larger companies?

⁶ J. Haltiwanger, R. Jarmin, and J. Miranda, "Business Dynamics Statistics Briefing: Historically Large Decline in Job Creation from Startup and Existing Firms in the 2008-2009 Recession," Ewing Marion Kauffman Foundation, March 2011.

⁷ E.J. Reedy and Robert E. Litan, "Firm Formation and Economic Growth, Starting Smaller; Staying Smaller: America's Slow Leak in Job Creation," Kauffman Foundation Research Series, July 2011, http://www.kauffman.org/uploadedFiles/job_leaks_starting_smaller_study.pdf

⁸ Ibid

- Should federal policies have a greater focus on new business formation, or on promoting business growth?
- Are there any federal policies that discourage potential entrepreneurs who are considering starting or expanding a company?

Access to capital

- How important is access to capital in today's environment? How have investment trends changed the types of innovations in the pipeline, and potential for companies to go public?
- What opportunities exist for raising capital for startup companies that are located in areas without great concentrations of venture capital companies? What steps do venture capital companies take to identify investment opportunities outside their immediate geographical area?