

PLANNING FOR THE FUTURE OF INNOVATION IN OHIO

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Innovation has been a key driver of long-term economic growth and prosperity in the United States for decades. This is self-evident in the daily lives of Americans: the types of cars we drive, how we communicate, and how we learn new information is starkly different from even just a few years ago. While innovation can be disruptive, those changes bring positive results over the long run. As described by James Broughel and Adam Thierer of the Mercatus Center at George Washington University: “In the short term, changes initiated by innovation can lead to disruption, some of which may be unsettling. Some old business models will fail and some individuals will lose their jobs. In the long run, however, the endless search for new and better ways of doing things drives human learning and, ultimately, prosperity in every sense—economic, social, and cultural.”¹

Ohio’s leaders have long recognized the importance of cultivating and investing in strategies to foster innovation. From the creation of the Thomas Edison Program under the Celeste Administration in the 1980s, the advent of the Technology Action Fund under Governor Voinovich, the establishment of the Ohio Third Frontier (OTF) program during the Taft Administration, the formation of the private economic development enterprise JobsOhio under the Kasich Administration, and the new InnovateOhio framework spearheaded by Governor Mike DeWine and Lt. Governor Jon Husted, successive administrations have each put their focus on this critical issue.

Business leaders in Ohio understand the benefits of innovation as well. In a recent *Prosperity Pulse* survey conducted by the Ohio Chamber of Commerce Research Foundation, 44 percent of business owners believe their business is impacted by innovation, through increased productivity, reduced costs, and availability of new products or markets.²

Each of these efforts have shaped the innovation ecosystem as it exists in Ohio today. How the state can position itself to be a leader in the innovation economy in the 21st Century is just as critical. To jumpstart that conversation, the Research Foundation partnered with TEconomy Partners, a leading economic development research firm, to release a comprehensive study in July 2018 titled “Ohio BOLD: A Blueprint for Accelerating the Innovation Economy.” The study’s key findings call for efforts in the state to create innovation hubs, or statewide platforms that can better connect research with critical sources of funding, focused on areas of existing expertise across the state (see Figure 1). The study also calls for targeted plans to elevate the entrepreneurial and risk capital system, and methods to develop, retain, and attract the necessary talent that will keep the engine of innovation humming in Ohio for years and decades to come.

¹ James Broughel and Adam Thierer. “*Technological Innovation and Economic Growth: A Brief Report on the Evidence.*” Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, February 2019.

² 3rd Quarter *Prosperity Pulse* Survey Results. Ohio Chamber of Commerce Research Foundation, Columbus, OH, December 2019. <http://ohiochamberfoundation.com/projects/>

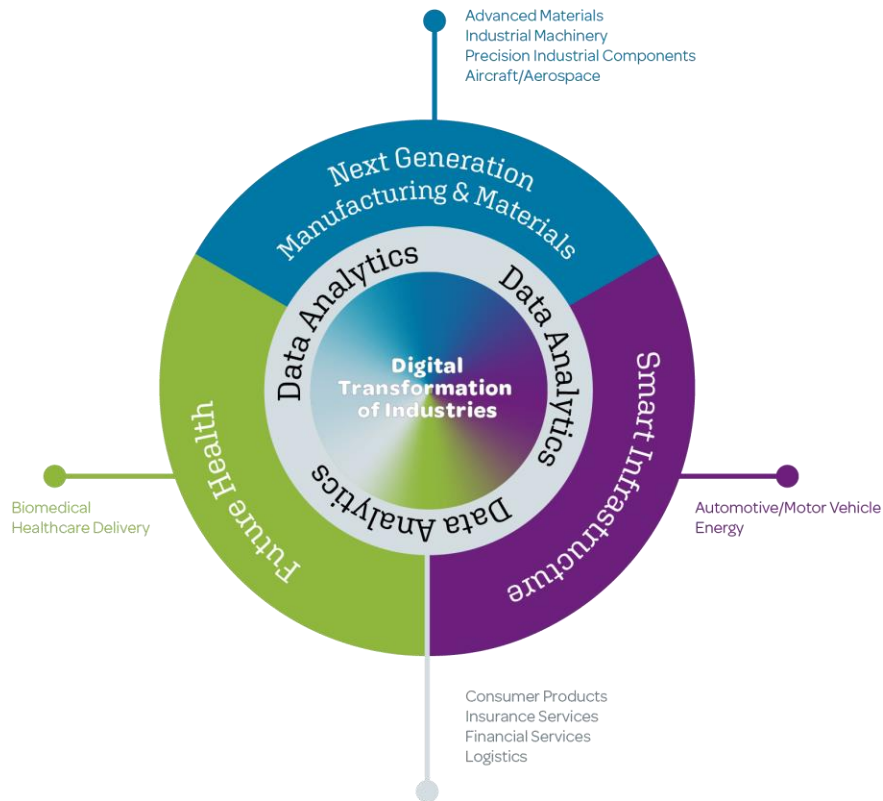


Figure 1. Suggested areas of focus for Innovation Hubs and the associated industries involved in each area. (Source: “Ohio BOLD,” Ohio Chamber Research Foundation, July 2018)

To get a sense of progress on these fronts, and identify where Ohio may be falling short compared to our neighbors or aspirational peer states across the country, the Research Foundation held the second in our “Lunch, Learn, & Lead” Discussion Series in November 2019. During the discussion, we heard from leaders at JobsOhio, the Ohio Development Services Agency (DSA), responsible for overseeing the Ohio Third Frontier program, and the venture capital community on what they see as the successes and shortcomings of the current economic and policy environment in the state.

JobsOhio is working on a revised and expanded strategic plan, that will include greater focus on the innovation economy. JobsOhio has already announced the planned formation of “Innovation Districts,” following a national trend to create density and vibrancy in the innovation economy through partnerships with anchor institutions in communities across the state. Such anchor institutions include universities producing talent and research entities for research and development, and these districts would operate with the goal to connect with and attract the venture capital community, repositioning Ohio to “lead the Midwest in entrepreneurship.”³

Under Ohio Third Frontier, DSA has had long established partnerships with Entrepreneurial Services Provider (ESP) Programs, designed to increase technology-based commercialization outcomes through integrated sources of deal flow, capital and support to maximize

³ JobsOhio Board of Directors Public Meeting, September 30, 2019, Lima, OH. https://www.jobsohio.com/wp-content/uploads/2019/10/FINAL-Board-Meeting-Presentation-September-30-2019-Lima_DRAFT.pdf p.44-45

entrepreneurial efforts through six key program partners around the state. OTF just completed the 20th round of their Technology Validation and Start-Up Fund program, aimed at providing seed funding through grants to start-up companies that commercialize technologies developed at colleges and universities across Ohio.⁴ Further, through the Diversity & Inclusion Technology Internship Program, Third Frontier provides paid internships to college students to build entrepreneurship skills and gain hands-on experience in the workplace.

During our discussion, we also heard from two representatives in the venture capital community. When comparing Ohio to neighboring states such as Michigan and Indiana, it is evident that despite the strong efforts of Ohio Third Frontier, JobsOhio, and other non-profit organizations, Ohio has succeeded in some areas and fallen behind in others. There are a significant number of companies at the earliest startup stage, a sign of strength of the startup community across the state and indicator of success of programs such as the ESPs under Ohio Third Frontier. Where Ohio is not as strong is in the next stage of growth and venture capital. It is critical to address the next step in growth for startup companies to ensure their continued success and avoid newly formed companies and the beneficial research they accomplish from “dying on the vine.”

Another area of focus among forum participants is with the technology commercialization offices at our state’s leading higher education institutions. Recent university-based research and development activities have led to the creation of more successful spinoff companies that have contributed new technologies and new ideas while attracting millions of dollars in capital investments. Where those efforts may run into headwinds moving forward is if universities seek short-term success at the cost of building a long-term foundation, as it poses risks to the foundation of the development process for attracting not only the best and brightest, but the venture capital needed to perpetuate cycles of growth.

Key Take-Aways

While Ohio may have ground to make up in comparison with our neighbors in some respects, hope is certainly not lost. Participants in the “Lunch, Learn, & Lead” innovation forum discussed several ideas to address identified gaps and accelerate the pace of innovation in the state, including:

- Create a new venture capital “fund of funds” to catalyze an increase in the number of Ohio-based venture capital funds and the amount of capital targeting early stage companies in Ohio. Ohio, through JobsOhio or OTF, should invest resources to help stimulate the formation of a fund of funds that would in turn manage investments across a number of areas of focus. This action would send a signal to the venture capital community that the state is serious about its efforts to reengage and reclaim our position as a regional and national leader in innovation. Importantly, we should learn from the shortcomings of prior fund of fund efforts in Ohio, Michigan, Indiana and elsewhere that weren’t properly structured to insure that the capital would be invested in Ohio-based venture capital funds that target early-stage companies (as opposed to growth or PE stage) based in the state or out of state funds that will actually invest in early-stage companies based in Ohio.

⁴ “Ohio Supports Technology Entrepreneurs,” Press Release. Ohio Development Services Agency. November 21, 2019. <https://development.ohio.gov/files/media/pressrelease/2019.11.21%20-%20Ohio%20Supports%20Technology%20Entrepreneurs.pdf>

- Develop a program to allow Ohio, through JobsOhio or other entities, to co-invest with other Ohio-focused investors into young companies with high growth potential. This type of co-investment would help accelerate company growth, keep the most promising companies in Ohio, and provide an opportunity for significant equity returns.
- Facilitate creation of one or more “life sciences” and/or medical technology venture capital funds. Today, Ohio has no early stage fund focused on the life science sector. Given Ohio’s strength in life sciences research facilities and national leadership in the healthcare sector, a venture capital fund focused on medical technology and other healthcare needs could attract investment from across the country and lead to a wealth of new startups and technological advancements.
- Increase efforts to attract talent. Ohio is in need of talent at all levels – entrepreneurs, management, financial, marketing, etc. Historically, economic development agencies have attempted to attract and retain companies. The State should continue this work, but also develop and market new programs to attract and retain talented people, and particularly the experienced senior executives required to build startups into highly successful enterprises such as Assurex Health, CoverMyMeds and other notable companies.
- Engage corporate and non-profit institutions which produce technology, talent and intellectual property to be more coordinated in their approach, more aggressive in their outreach, and more impactful in their results.
- Determine and articulate a clear future for the Ohio Third Frontier program. With approximately \$120 million of available funds remaining, state policymakers should determine the best use for the remaining funds and decide if voters will be asked to reauthorize the program during the upcoming election year.
- Better align the various programs between JobsOhio, DSA, OTF and InnovateOhio. Ohio can do better in removing program duplication, avoiding overlap of future programs, and improve communication and marketing efforts to the entrepreneurial ecosystem.

Conclusion

Decades of focused efforts on innovation and capital attraction positioned Ohio as a leader in the Midwest, and it is important to organize the existing infrastructure around a unified, collaborative plan of action that can sustain our successes and adjust our course in areas where we may have fallen behind. The need for a new paradigm, one where the public and private sector can work hand in hand to ensure a smooth transition from ideation, to startup, to growth and eventual venture capital investment is critical now more than ever. We are encouraged by JobsOhio’s efforts to establish Innovation Districts, and believe that their success can eventually lead to statewide platforms for innovation.

As we called for in our Ohio BOLD study, the platform is only one piece of the puzzle. Existing talent development and retention efforts must be expanded to focus on attracting the best and brightest where they exist and demonstrating that Ohio is the place to be. While we are capable of training the next generation of leaders, those strengths must be coupled with programs



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designed to identify and bring to Ohio those business leaders who can best lead the next wave of startup and growth companies. Further, returning to our place as a leader will not be possible without the continued development of the state's venture capital community. Utilizing existing state resources to create a fund of funds and ensuring the continuity of existing capital investments from the state will send a strong signal to investors looking for opportunities that Ohio is on the map as a national leader once again.

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