Karen West, Oct. 9th, 2014, for submission to Beyond Silicon Valley: Growing Entrepreneurship in Transitioning Economies, Personal Learning Assignment (PLA) 1:

Note that the answers below were taken from both the video lecture in regard to the experiences of the 3rd Frontier role of government contributions to start-ups in Cleveland,Ohio, but for my local area here in Boston,MA,USA, it was all taken from web searching the topic, put into my own words.

Here is what I learned about what was unique about Ohio's 3rd Frontier Program to support the growth of entrepreneurship from the lecture video, and my web searches to find out how the Boston area may be able to utilize a program such as Cleveland's 3rd Frontier program, and what is in place at this time. The web site lists Massachusetts and the National Science Foundation as funders of start ups in Boston, with the NSF being at the Federal level. I go into detail about that after I describe how the 3rd Frontier, a Ohio state level start up contributor was successful in boosting their economy for entrepreneurs.

What was unique about Ohio’s Third Frontier program to support the growth of entrepreneurship in terms of timing, evaluation, risks and structure was that some philanthropists recognized their need to intervene to convince Ohio's government to contribute to the innovation crisis and support entrepreneurs in their area, to help improve their entrepreneurship market failure (last on a list 61 places long) as perceived by “Entrepreneur Magazine” in 2001. This coalition of strong community leaders were passionate about making changes and willing to work together. They formed a plan for the city of Cleveland in Ohio. With money and support from the philanthropists and government organizations (such as 3rd Frontier and Jump Start), they supported new ideas to grow an entrepreneurial mind set in Cleveland.

So the role of government in Cleveland was to provide some financial support in key sectors where Cleveland, Ohio possessed strengths relative to the rest of the US and world. This coalition of philanthropists convinced Ohio to vote and they approved a 2.3 billion dollar budget for the 3rd Frontier Program which also helped struggling start-ups to remain in Cleveland rather than move to a more thriving metropolitan area for start-up companies.

People in government positions are not well known for their expertise in selecting start-ups to fund that they believe would be successful in the market place. So the state of Ohio imposed some structured requirements in order for a entrepreneur to receive their contribution to their funding. It required them to find other investors to match what the government gave them. The government also required a 3rd party independent evaluator to make recommendations for the allocation of their start-up funding.

For those that invest in start-ups, the risk is high for just one investor to invest on one technology for one start up company, so what is often done, is a pool of money is raised from multiple contributors but with additional incentives in regions where there is a fear of market failure for start-ups. The additional incentive in Cleveland's case was the 3rd Frontier.

For the government to avoid risks with their investment, the requirement that the start-up company having to find other investors to match the government grant provided the additional screening as to the quality of the grant programs that are out there. The other way the government avoided risks with their 3rd Frontier investment, was to require that the application for funding be evaluated by an independent 3rd party, which brought higher standards of professionalism, transparency, and independence into the government grant making. It also helped remove favoritism from the decision making process.

The metrics used to measure the success of the investment were job creation – growing the economy, tax revenue, and the amount of follow-on capital that is raised by entrepreneurs after the state investment. However, with the job creation metric, one problem in measuring that is that some investments are for things that improve the productivity of a particular person, so that reduces the number of people needed to do a job than before the improvement was made. So what they had to also do, was look at the job creation numbers from a quality stand point, in that the quality of the job was important, and how much revenue does an individual job create.

There is a spirited debate about how much government should be involved in entrepreneurship. Some take the approach of NGO (non-government-organizations) or a community that says they want to keep the pubic sector dollars completely out of entrepreneurship. This can be a reasonable approach depending on the situation.

For Cleveland though, the public sector dollars have been able to create a lot of momentum in a relatively short time. The 3rd Frontier has had sustained levels of funding for 10 years and is a large government program for contributing to local entrepreneurs compared to other states. Ohio did not have 20 years to get the right private sector leaders organized to make a difference for them, so having the 3rd Frontier to help was the right thing for them.

A venture capitalist from Silicon Valley said that they are cautious about the role of government in contributing to the funding start-ups, but said that if it is done “light handedly” as Cleveland,Ohio did, then it can be quite good. An angel investor that is from Cleveland said that government can be an important catalyst and in some cases necessary for start up activity, but that it should not be the main funder (king maker so they said), nor should the government design the start up activity. The government should only look at the entrepreneur and their needs as a community, and be a catalyst, an enabler, not a controller of an entrepreneurial activity.

Some other groups that fund entrepreneurship, such as the Endeavor group, are also cautious about government involvement with funding start-ups, because sometimes there can be “strings attached”. They also said that with the government, you never know what will happen, because people leave, people come in, and the incentives are not always aligned with your entrepreneurship strategy, which is a longer term thing.

From an international perspective, some economies such as in Tunisia have almost entirely depended on government funding of start-ups, as much as 96%. In Vietnam, it is different, and the role of government funding in entrepreneurship is still emerging, but they do believe that if the government did intervene there, it could speed up Vietnam's start-up success.

However, with governments being involved with providing support for entrepreneurships, it complicates things. The ultimate return on investment (ROI) can take years, if not decades, and political leaders tend to want results more quickly.

However, the above description of the 3rd Frontier's government funding from Ohio, was a catalyst for contributing to Cleveland's start-up culture has had good success in improving their start-up businesses there.

In the Boston area, there is quite a bit of support for innovation. Recently they dedicated city space on the water front just for start ups called the “Innovation District”. So although a program such as the 3rd Frontier may be beneficial to this area for start-ups, many probably do not need it since there is quite a bit of support for them. But I did see that there is government support of entrepreneur programs here, both at the state and federal levels.

There is a “Mass. Challenge” where innovators present their technical product to compete for funding, but looking at the list of contributors, there were many more private sector companies that contributed than government contributors, but the Massachusetts government did contribute to this and was listed, along with the National Science Foundation which is funding from a federal rather than state level. Also, the list did not say how much money was contributed from each resource, and although there were many more private sector companies listed, whose to know how much the government put in to contribute, since it did not list the amount of money from each resource, government verses private sector. It also did not list any criteria for the contributions whether from the government or private sector, such as the 3rd Frontier's requirement of getting private sector matches and 3rd party evaluations. It might be in place, but I did not find that information in my search. It appears if you go to there web site as if they are all in a large pool of contributors who may send representatives to the competitions and perhaps they come to a consensus on who wins the start up company money at any given competition. I don't know how often the presentations of a product for a start up take place. There are numerous meet-ups in Boston and Cambridge for people interested in chatting with local entrepreneurs. There are other similar competitions as well. There are emailings and web sites that report news weekly about the status of the Boston area's start up culture, but it does not go into details about where the funding comes from, such as the amount the government may have contributed to the start-up verses private sector funding. Massachusetts is often near the top of the rankings of entrepreneurship activities in recent years, but is perhaps not as experienced in it as Silicon Valley might be.