

## A Big Job: Retooling Northeast Ohio's Economy



*Knotice* is a new enterprise software firm in Akron. Alex Fiedlerjohn photo.

### Multimedia

*Above photo: Knotice is a JumpStart company and enterprise software firm in Akron, Ohio, with headquarters in a former industrial building overlooking the old B.F. Goodrich plant.*

### A Reporter's Analysis by John Dorshner

In early 2004, a group of philanthropic organizations in Northeast Ohio forged a unique effort to bolster economic development in a region suffering through decades of decline.

The idea had been bubbling for at least two years. Rob Briggs, head of the Akron-based GAR Foundation, recalls calling Steven Minter, chief executive of the Cleveland Foundation, in 2002. Said Briggs: "The region's economy is a disaster. Nobody's acting. The politicians aren't doing anything. The corporations aren't doing anything."

The result was the Fund for Our Economic Future, which consists of more than 100 organizations dedicated to transforming a decrepit Rust Belt into a 21st century knowledge economy. In its first three years, the Fund raised \$25 million and gave out \$24 million. In its second three-year phase, starting in February 2007, it has raised another \$28 million that it plans to spend through early 2010. About \$5.3 million of that has been spent.

Ned Hill, an economic development specialist at Cleveland State University, says individual foundations in some cities have tried to improve struggling local economies, but Northeast Ohio was the first place in the United States he knows of where a group of nonprofits have united to transform a regional economy. "That's what makes this unique."

Interviews with several dozen leaders in Northeast Ohio and an examination of thousands of pages of documents show that the Fund has made huge strides in specific areas, but has a long way to go to turn around a \$150 billion annual economy where problems have been building for years.

Here are the major developments:

- The Fund's biggest achievement has been helping to develop a regional sense of purpose for many different entities to work together for economic development. Leaders believe this joint effort can create the "critical mass" necessary for Northeast Ohio to compete in today's global economy.
- The biggest challenge is maintaining this regional cohesion, particularly with groups outside of Cleveland and others who feel they are on the outside.
- The key successes have been Fund grantees JumpStart and BioEnterprise, which are helping dozens of start-up high-tech and biomedical businesses. Those efforts have generated or supported about 900 high-tech jobs in the region so far. If only a small fraction of these companies grow into major businesses, they could create significant numbers of jobs.
- Attracting outside businesses to the area, the role of Fund grantee Team NEO, continues to be problematic. The group got off to a rocky start. A new leader has solved many difficulties, and its 2007 achievements have far surpassed its goals. Still its work puts it in brutal competition with many other areas of the country. Civic leaders believe Team NEO's work is necessary, but not a single one of those interviewed believes its work will lead to a transformation of the economy.
- The Fund is working hard to measure what's happening with the economy — and whether its efforts lead to improvements. Rather than accept vague boasts of achievements from grantees, it has funded an ambitious and detailed Dashboard of Economic Indicators that compares Northeast Ohio with similar regions.
- Time is an issue. It's far too early to gauge the Fund's ultimate success or failure. Some long-term objectives, such as improving education and racial inclusion, could

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take years. The Fund's current lifespan ends in February 2010.

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Certainly, Northeast Ohio's economy has been in bad shape for a long time. The most vivid examples may be in Youngstown where rusting hulks of abandoned steel mills intrude on the landscape. Census data shows the region lost about 100,000 workers between 2000 and 2005; almost half worked in higher-wage manufacturing jobs. Many who still have jobs are earning less.

Cleveland, the region's population hub, has been especially hard hit. Census data from 2004 showed it to be the poorest big city in America, and though it has since lost that distinction, it remains among the very poorest.

For decades, civic leaders have known that something needed to be done, and there have been many efforts, with grand names like Cleveland Tomorrow and the Greater Cleveland Growth Association. The city's downtown was boosted in the 1990s with new high-rise developments, new baseball and football stadiums, plus the Rock and Roll Hall of Fame. But none of these actions stemmed the economic decline.

In 2003, various foundation leaders began meeting "fairly regularly," says Briggs, who also is vice chair of the John S. and James L. Knight Foundation. All agreed "nobody is taking charge" of economic development.

Ronn Richard, who succeeded the retiring Minter in the summer of 2003, says that by the time he started, the Cleveland Foundation board was committed to a dramatic new push for economic development. The Cleveland Foundation offered to commit \$10 million to the joint effort, but sought only one vote on the Funders Committee, which would govern the overall operation of the Fund and approve all grants. That allowed smaller groups to join without feeling like poor stepsisters. "I don't think others would have come to the party" if it hadn't been for that offer, says Briggs. Any foundation that agreed to contribute \$100,000 over three years would get a vote on the Funders Committee, which would re-grant the committed funds to innovators working to transform the region's economy.

Knight Foundation, given its strong historic ties to Akron, has become deeply involved in the efforts to revitalize the region. So far, it has contributed \$6.6 million: \$1 million to the Fund in 2004 for its first phase and \$2 million in 2007 for its second phase, plus direct grants made to several major Fund grantees: \$1.5 million to Team NEO, \$1.5 million to JumpStart and \$600,000 to BioEnterprise.

Brad Whitehead, a former McKinsey & Co. consultant who was on the staff of the Cleveland Foundation, spearheaded the original effort to promote the Fund. Denise Zeman, president of St. Luke's Foundation, says she first thought the effort didn't make sense for her group, which was focused exclusively on health care. But after her board members understood the concept, they became "so excited. We have to be part of this."

In February 2004, the Fund began operations with about 30 foundations and an announced life span of three years dedicated to improving conditions in Northeast Ohio, including the cities of Akron, Canton, Cleveland and Youngstown.

Not wanting to create a new bureaucracy and new expenses, the founders decided the Fund would start by operating only with "loaned staff" from the foundations. [For more, see sidebar "[The Loaned Staff.](#)"]

Before charging ahead, the Fund's creators decided they wanted to know what the people in the region thought should be done. One reason was that the leadership was overwhelmingly white – "I was the only person of color" at many Fund meetings, says Randell McShepard of RPM International – and there was a long-held perception in the black community that white leaders talked only to themselves. Cuyahoga County, which includes Cleveland, is 36.2 percent black.

Fund leaders spent \$3 million for an elaborate, 18-month research project called Voices and Choices. "It was a controversial decision," says Briggs. "It's still controversial. Alex Machaskee, publisher of The Plain Dealer, was just death on the idea. 'We all know what the issues are,' he told me, but I will defend that decision forever."

To do the surveying, The Fund hired a Washington, D.C., organization, AmericaSpeaks, which relied on a variety of opinion-seeking devices, including two electronic town meetings. Altogether, the views of 20,000 persons were heard.

From this emerged the Fund's goals: Attract businesses and help them grow, improve the education and job training of the work force, bolster racial inclusion by helping minority business development, and implement regional policies to support growth while improving government efficiency.

The first two ideas – attracting businesses and educating the work force – have been around for decades. So too is improving government efficiency – usually discussed as lowering taxes. But virtually all Fund leaders say they would not have put so much emphasis on minority inclusion if it hadn't been for the Voices results. "It was important that the minority community was not left out," says Vivian Celeste Neal, Knight's program director in Akron.

Still, the survey results were lambasted on Northeast Ohio blogs, the criticism often led by Ed Morrison, an economic development official at Case Western Reserve University until he was fired in 2005. Acknowledging that he was angry that the Fund rejected his proposals for surveying the region, he maintains the Voices project was "an ill-defined, extravagant process." In his blog, he noted the \$3 million investment worked out to \$150 a person. By comparison, he surveyed 2,000 people in Indiana at a cost of \$60,000 – \$3 per participant.

Whitehead, now the Fund's full-time president, says what's important is the outcome: "We really needed people to feel that they were part of the process, and I think that's what



Abandoned steel mill, Youngstown, Ohio.



Brad Whitehead, president of the Fund for Our Economic Future.

happened.”

Embracing regionalism was considered by many Fund leaders to be a top priority. “To compete in the global economy, there is a strong advantage in reaching critical mass,” says Christian Ketels, an economic development specialist at Harvard, but he warns that doesn’t just mean drawing lines on a map. “Too many regions are coming up with a good name that stretches the geography a bit, but that doesn’t change the reality.” [See the sidebar “[What’s a NEO?](#).”]

These days, virtually all civic leaders praise the Fund for dramatically improving a sense of regionalism. “Absolutely, they’ve done this,” says William Currin, mayor of the town of Hudson and head of the Northeast Ohio Mayors and City Managers Association. “This is an arduous task, but there is much more collaboration these days.”

Jay Williams, mayor of Youngstown, says he has “a very positive view of the Fund” because “it has allowed us to establish much more productive contacts throughout the region.” Thanks to Fund activities, Williams and the mayor of Cleveland now have “an ongoing relationship.”

Still, in a region of more than three million people and over 7,000 square miles, tensions abound. Dan Colantone, head of the Greater Akron Chamber, is concerned that regional efforts, such as Team NEO, have been asking Akron businesses for donations. In his view, that’s taking money that could be going to the chamber. “There needs to be a different approach.”

Even so, civic leaders and businesses in Akron remain deeply committed to a joint approach to solving the area’s economic problems, and they are the concept’s biggest cheerleaders outside of Cleveland. “Akron is very enthusiastic about regionalism,” says Colantone. At least partly because Briggs is chairing the Fund, Akron has been the center of many activities, including both town hall meetings and a final goals discussion involving hundreds of Voices and Choices participants. Quite a few of the young companies funded by JumpStart are housed at the Akron Global Business Accelerator.

Other areas are more problematic. Tom Humphries, chief executive of the Youngstown/Warren Regional Chamber, says regionalism remains a tentative concept. “I’ll be at a meeting, and they’ll be talking about all these plans, and then they’ll see me, and they’ll say, ‘Oh, and Youngstown, too.’ But if I weren’t at the table, I don’t know that they’d be thinking of us.”

A 2006 Knight evaluation report from Mt. Auburn Associates, a Massachusetts consulting firm, noted: “The greatest concern expressed by local officials was that the benefits of regional efforts wouldn’t be distributed evenly. This concern was expressed most strongly by mayors and commissioners in less populous counties.” [See sidebar “[Tough Regional Choices.](#)”]

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For the last quarter-century, the region’s leaders knew they needed to look to technology and innovation to build a new economy. Universities, civic associations and private entities all worked at it, but the efforts were fumbling and inconclusive.

That started changing in early 2004, just as the Fund was preparing to launch.

NorTech, a group developing technology businesses, launched two major initiatives. They backed the creation of JumpStart, to invest in and support promising start-up, non-biotech companies, and the revitalization of BioEnterprise, dedicated to finding venture capital and offering support for biotech and life science companies. All three eventually became grantees of the Fund.

NorTech brought in Ray Leach, a veteran consultant and entrepreneur, to merge several underperforming economic development entities focused on assisting and investing tech start-up/venture capital entities into a new organization, JumpStart.

“NorTech brought me in and said, ‘We have a mess. You’re the hatchet man.’” In the first six months of 2004, he fired 14 employees and hired 13 whom he believed had the entrepreneurial talent to find and advise young companies.

Leach was looking for start-ups that had a “secret sauce” – a unique concept – that could lead to annual revenue of \$1 billion or more. JumpStart would invest about \$300,000 in these young companies, in return for convertible debt or equity.

By all measures, JumpStart has been a roaring success. In January 2006, Mt. Auburn concluded that JumpStart had a “strong performance.” Entrepreneur magazine reports JumpStart is now among the 10 most-active early stage investment groups in the United States. Through August 2007, it has vetted more than 1,000 business plans, assisted 128 start-ups with advice and invested \$8 million in 23 companies, which in turn have raised \$23.1 million from outside investors. Backing the Fund’s minority mission, three of the companies are led by blacks and two by women.

Although such start-ups are inherently risky, JumpStart has “gone passive” on only four of the 23 companies, because they weren’t meeting their targets.

Through August, after three years of operation, JumpStart says it has created or supported 120 jobs. By 2011, its goal is to have invested in 60 companies and to have created 1,000 jobs. But to put the uptick in perspective, this is happening in a region that has lost 100,000 jobs over five years.



*AnalizaDX is a JumpStart project and BioEnterprise company founded in Cleveland in 2006. It has developed and patented a low-cost, automated blood/urine test that will dramatically improve the detection of cancer in multiple forms and stages.*

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BioEnterprise's mission is to take advantage of the booming health-care resources of Northeast Ohio and the discoveries coming out of the Cleveland Clinic, Case Western Reserve, University Hospitals and Summa Health System. These institutions and others in the region do \$500 million in research annually.

Achievements for the first year were small – a claimed \$32 million in health-care equity raised, a figure disputed in an analysis by The Plain Dealer.



*Turning Technologies is part of the Youngstown Business Incubator, and is the fastest-growing private software company in the country. Its ResponseCard XR, being packed for shipping above, allows audiences to respond to a PowerPoint presentation.*

In 2004, control of the organization was handed to Baiju Shah, a former McKinsey consultant who helped draft the BioEnterprise business plan. Rather than invest directly in companies, Shah says BioEnterprise works hard to find venture capital and growth funding for promising bioscience companies as well as to provide advice and connections.

Under him, investments have soared. In 2004, they reached \$61 million, and over the past two years they have averaged \$129 million annually. Altogether through 2006, Shah reports, BioEnterprise has sustained about 1,400 jobs, slightly more than half of which are in the region. (Shah says sustained, because "we pick up many companies after they already have started.") Mt. Auburn's evaluators reported BioEnterprise had "strong performance" in a 2006 report.

Shah has pushed hard to make investors around the country aware that Northeast Ohio is "The Nation's New Bioscience Innovation Destination." Eighty percent of venture capital going to BioEnterprise businesses comes from outside the region. He's also been aggressive in recruiting foreign venture-stage life science companies that want to get a U.S. foothold for business and investment purposes. With the support of BioEnterprise, a half-dozen Israeli companies, two from Russia and one from Japan have established their U.S. presence in Northeast Ohio.



PHOTO BY ALEX FLEDDERJOHN  
*Bioenterprises's Baiju Shah.*

Even when the Fund hasn't made direct investments, its impact has been felt. The Youngstown Business Incubator, a warren of young companies with huge ambitions headed by Jim Cossler, has gotten big help by way of advice coming from important Cleveland movers and shakers. "I can't put a price on that," says Cossler. In August, one of the incubator's start-ups, Turning Technologies, was named the country's fastest-growing, privately held software company by Inc. magazine.

The successes have been recognized nationwide. One indicator: For more than a decade, the Cleveland region ranked near the bottom of Entrepreneur magazine's Hot Cities for Entrepreneurs, and at one point it was dead last. In 2006, it came in 23rd out of 61.

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Much more troublesome has been Team NEO, the region's first economic development group organized in 2003 to lure businesses to the region and to retain those already there. After a national search, an economic development specialist from Texas, Bob Farley, was hired as president.

"Everybody put every hope they had into the organization," says Whitehead. The hopes weren't fulfilled. Local chambers of commerce quickly complained. Colantone in Akron says that when Team NEO tried to retain local businesses that were thinking of leaving, they were encroaching on his territory. "Those are my businesses, and I'm going to fight to keep them."

In 2005, as complaints mounted, Knight Foundation asked Cleveland State experts to examine Team NEO. They found multiple problems with the organization's leadership, infrastructure and goals. Another report, by Mt. Auburn, found Team NEO's performance "problematic," with "fuzzy articulation of mission and goals."

In March 2006, Farley was replaced by Thomas Waltermire, a veteran Cleveland corporate leader. He agreed the regional chambers would handle retention. Team NEO would do national and international marketing, then pass developed leads to local areas.

Regional chambers say Team NEO is working much better with them, and the organization "now seems to be on the rails," says the Fund's Whitehead. Through November, Waltermire reports Team NEO has already passed its goals for the year by 150 percent. It has generated 90 serious new leads and closed on nine projects. Working with its

local partners, it has added 1,200 jobs and \$41 million in payroll. Many of these jobs are fairly low-pay, such as in call centers, but the group boasts it recently worked with the city of Painesville and state officials to help PCC Airfoils break ground on an expansion that's expected to create 150 high-paying jobs.

Waltermire acknowledges that attracting businesses to Northeast Ohio will remain difficult because so many other places are competing, some of which have better tax structures, warmer winters and labor laws friendlier to business.

No Fund leader interviewed mentioned the organization as one of the Fund's success stories, but they insist that attracting business must be part of a multi-prong approach. When a journalist pressed David Abbott, executive director of The George Gund Foundation, about how tough it was to persuade businesses to move to Northeast Ohio, he fired back that was true. "But we have to be competing in the game. The alternative is to die."

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To gauge its own progress and that of the region, the Fund is carefully measuring the Northeast Ohio economy annually through a series of Dashboard reports, which have cost almost \$300,000.

The 2007 Dashboard report, released in August, compares the region with 136 similar areas in a highly detailed, 90-page analysis measuring an array of factors. It shows that in per capita income, employment and gross metropolitan product, Northeast Ohio continues to grow more slowly than other regions of its size in good times, and it takes longer to bounce back from hard times. From 1995 to 2005, while 136 similar areas averaged a job growth rate of 15.9 percent, Akron jobs grew by 8.4 percent and Cleveland by 1 percent while Youngstown declined by 2 percent. For prospective employers, the education of the Northeast Ohio work force is not a plus. The Dashboard reports that among the 136 regions, Akron is Northeast Ohio's best, ranking 48th in terms of persons with college degrees. Cleveland comes in at 80, Canton 122 and Youngstown 129.

The numbers lead naturally to discussions leaders hope can shed light on paths for improvement. Why has Akron fared better than other cities in job growth? Some speculate that the city's committed leadership, from the mayor through business and civic organizations, has made a difference. Others say Akron, being smaller than Cleveland, is more manageable and easier to change.

Over time, the Fund hopes that it can move such basic indicators as job growth, but that won't be easy. Ziona Austrian, the lead Cleveland State author of the Dashboard, says many major indicators will take years, perhaps decades, to move. Whitehead acknowledges the region needs long-time help. "This could take 10 or 15 years. ... The foundations are going to need to hang with this for quite a while."

If Fund leaders want to know how much of a challenge awaits them, they need only to open their newspapers or look on the web to find how much Cleveland's economy still suffers and how others view their work, sometimes harshly. [See sidebar "[The Fund and the Media.](#)"]

On the other hand, the Fund got a huge pat on the back in September, when 10 foundations including Knight announced the start of a related effort in Southeastern Michigan by putting up \$100 million to foster economic development.

In creating this, "we have absolutely played a major role," says Knight President Alberto Ibarguen. Not only did Knight contribute \$10 million to the Michigan effort, but discussions about the Cleveland effort at Knight board meetings helped shape the Michigan initiative.

Mariam Noland, who serves on the Knight board and is heading up the new Michigan effort, says hearing Briggs talk about the Fund's successes at Knight board meetings spurred her to push for something similar for the Detroit area. "Michigan is different than Ohio, and we're going to do many things differently. But we're watching them," she says of the Fund in Northeast Ohio. "Others are watching. I think they're providing a real laboratory for other efforts."

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