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## Blind Frontier

The state spent millions to create jobs. It has no idea where the money went.

BY CHRIS MAAG

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Get off the elevator on the 11th floor of the Halle Building and the sign still reads "SupplierInsight" with a golden arrow pointing down the hall. But the doors are locked, and the nameplates have been removed. Next to a maintenance closet hangs a laminated map listing vast sections of the floor as "unoccupied."

"SupplierInsight?" says the receptionist at Carnegie Capital Management, the only tenant left. "Um, I think they moved out of here like three months ago."

Less than a year after the state invested taxpayer money in SupplierInsight, the company was bought by an Atlanta firm. All 14 Cleveland employees were fired.

Maybe the company's departure is for the best. When it was here, its main objective was to connect U.S. firms with suppliers in low-cost countries like China. In other words, it was doing its best to get companies to look overseas instead of doing their business in Ohio.

Which raises an obvious question: Why would the state fund such a company?

Unfortunately, the officials in charge of the money don't really know. "I don't think we have enough information to know what it is that SupplierInsight does and whether or not it's ultimately beneficial for the state," says Bill Teets, spokesman for the Department of Development.

Walter Novak



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When Governor Bob Taft created the Third Frontier Action Fund in 1998, his goal was to "make Ohio a leader in high-tech, high-paying jobs." Yet according to a recent report by Policy Matters, a Cleveland think tank, the jobs created "number in the hundreds." That may sound impressive on its own. But the state has spent \$68 million to accomplish the feat, which equates to spending hundreds of thousands per job.

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"It has not been a very effective tool for job creation," says Zach Schiller, author of the report.

Such numbers have caused officials to backpedal. They now claim that jobs were never the goal. "The point of the entire fund is to garner seed money for high-tech development," Teets says. "That's where this whole action fund started. Not with job creation or anything like that."

If that were true, SupplierInsight would be a success story -- sort of. The state's seed money did help the company develop new software, enabling it to create new websites for Midwestern companies that wanted to keep better tabs on their overseas suppliers, says founder Chuck Scholl. And that made SupplierInsight more attractive to an out-of-state buyer. But it also cost Ohio 14 high-tech jobs.

"There's no way I think that was a good investment of state money," says state Senator Eric Fingerhut (D- Shaker Heights).

Perhaps worse, the Department of Development doesn't even know how much it invested in the company. Most of the Third Frontier money doled out so far went directly to high-tech firms. But \$9 million went to venture capitalists, who then paired it with their own money to make investments.

The problem is that there's no way to track what happens to taxpayer money, once it's in the venture capitalists' hands. The firms are not required to tell the state where they're investing the money or how those investments are benefiting Ohio.

Take, for example, the funding of SupplierInsight. Given Third Frontier's lax accounting, the paper trail from taxpayers' wallets to the company's bank account is largely hidden. State documents note that Third Frontier gave Cleveland venture capitalists Early Stage Partners a total of \$2 million in two separate grants. Early Stage partner Jamie Ireland says the firm combined the state's money with about \$30 million from private investors and distributed it to 10 high-tech companies, including SupplierInsight.

Last January, 10 months before the company moved to Georgia, SupplierInsight announced that it had received \$2 million from six venture-capital firms, including Early Stage Partners. But Ireland doesn't how much state money was invested in the company. Once it's dumped into Early Stage's general fund, the firm doesn't keep track of where it goes. Nor does the state seem interested in knowing.

"There's no specific obligation in the grant agreement to disclose which companies [venture capitalists] are working with," says Norm Chagnon, staff director of the Third Frontier Commission. "We're not interested in the end-customers of the funds."

And if the company eventually moves out of state, as SupplierInsight did, the venture capitalists still make their money, but Ohio gets nothing. "I think there's a real lack of accountability here," Schiller says.

Nonetheless, the state believes it's promoting the greater good, even if it doesn't know where that good actually is. "With our \$9 million, we've been able to leverage between \$130 and \$150 in private investment," says Chagnon.


Moreover, there's an argument to be made that Ohio has no other choice but to hand its money over to experts. "I guarantee you that we in state government do not have the expertise that these firms do, in terms of picking good companies to invest in," says Bob Garrick, grants manager at the Department of Development. (Governor Taft's press secretary, Orest Holubek, did not return phone calls for this story.)


But given the state's dire finances and history of blundered investments, it would seem wise to know at least where such money is going, says Fingerhut. "We should absolutely make changes to tighten up the process."

Today, Chuck Scholl is SupplierInsight's only employee. After his company left for Atlanta, he retained the part of the business that helps American companies find new customers and cheap labor in China. He operates the business out of his Shaker Heights home. "In our case," he admits, "I'd say it didn't really work out the way we had hoped."

[clevescene.com](http://clevescene.com) | originally published: January 7, 2004

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