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**Mass. Tech/Defense Lead At Risk, State Strategy Needed, Says Mass Insight Report
State's Biggest Sector Strong, but Investment, Collaboration Would Prevent "Tech Outpost" Status**

Massachusetts's current strength as a global high-tech and defense cluster is at risk of being significantly diminished in the decades ahead without greater industry-university collaboration and targeted state investment. The sector, responsible for 331,000 jobs, has the largest economic impact of any state industry, but with slowing growth and the lack of a state strategy the Commonwealth could become a "high-tech outpost," according to a comprehensive report released today by the Mass Insight Corporation.

Mass Insight's report, developed with the pro bono support of McKinsey & Co., outlines a concrete strategy to tap the state's knowledge assets, enhance coordination, and develop its talent pool so that Massachusetts can regain its global prominence as the luster of the Route 128 brand has faded in recent years. The report recommendations include the creation of a Talent Development Bank to expand the links between the tech industry and college campuses and a strategy to make Massachusetts the "World's IT Security Capital."

"Massachusetts is highly dependent on high-tech and defense, and we can no longer take this critical sector for granted," said Mass Insight President William Guenther. "If we continue on this path we run the risk of becoming a high-tech outpost rather than our historical position as a national leader with Silicon Valley. Developing a talent strategy and better connecting university and industry assets are the key to future growth in technology and defense."

The report, the first comprehensive evaluation of the Massachusetts tech sector released in 20 years and the third and final in a series on the state's major business innovation sectors, notes that much of the recent state policy focus has been on the life sciences industry, which employs about 25 percent of the 331,000 total jobs in the Massachusetts IT/Communications/Defense (ITCD) sector. ITCD accounts for 15 percent of annual state economic output, the most of any sector in Massachusetts.

The report highlights positive trends including the large global technology companies expanding in Massachusetts, including Microsoft and Google, both of which recently opened research labs in Cambridge. In addition, the Massachusetts net cost of living, while above the national average, is below New York City and San Francisco and on par with technology competitors Seattle and Austin, Texas.

However, recent ITCD job growth has been flat, and Massachusetts may not be well positioned to capture the next wave of innovation, even if it emanates from discoveries at local universities. Furthermore, many local employers are finding recent graduates lacking in critical skills needed to succeed in technology jobs, and significant gaps remain in collaboration between universities and industry.

While the Bay State's gross product from ITCD is up an average of eight percent a year over the past of decade, this growth has come solely from worker productivity gains and not job growth. In another worrisome trend, the report shows that Massachusetts IT venture capital investment was down three percent



annually between 2002-2006, while venture investment in life sciences jumped 10 percent a year over that same period.

Based on the report, Mass Insight's ITC Working Group, co-chaired by Perot Systems Consulting Chairman Jim Champy and Microsoft Associate General Counsel Annmarie Levins, recommends a five-step talent, innovation and sector attractiveness initiative to reignite the high-tech and defense economy:

- **Create a Talent Development Bank to coordinate a state talent strategy (\$3 million)** – High level research talent and a deep workforce pool are the primary factors that have defined the Commonwealth's premier technology cluster. Still, Massachusetts has never had cohesive talent strategy and is losing talented workers to other states and nations. The report recommends the creation of a Talent Development Bank, to be housed at the University of Massachusetts and connecting with private universities, to coordinate major talent retention and creation functions, including connecting university curriculum with employer needs and marketing Massachusetts careers to undergraduates.
- **Recapitalize the Massachusetts Tech Transfer Center (MTTC) (\$10 million)** – A quiet success story in recent years, the MTTC works to spur commercialization at all of the state's public and private universities, research labs and teaching hospitals. With additional funding and staff, the MTTC's services could deliver more economic opportunity across the state.
- **Recapitalize the John Adams Innovation Institute Federal Matching Grant Program (\$50 million)** – Arguably the most effective creation from the 2003 economic stimulus bill, a \$30 million state investment in this program has returned \$260 million in federal and private research funding for the state's public and private universities. The fund is nearly expended and unless replenished Massachusetts will miss out on future federal research grant opportunities.
- **Create a commission to study the creation of Massachusetts IT Security Research Center (\$250,000)** – Building on the current collaborative effort to bring the Air Force Cyber Command headquarters to Hanscom Air Force Base, Massachusetts should develop a plan to make Massachusetts the "World's IT Security Capital." The centerpiece of this effort would be an IT Security Research Center, a multi-institutional research facility that draws on Massachusetts's strengths in IT across a variety of sectors, including defense, health care and financial services.
- **Create new brand and marketing strategy for ITC sector (\$1 million)** - As the report points out, the Route 128 brand has lost its luster. Massachusetts needs a new identity that reflects the diversity and dynamic nature of the state's high-tech and defense sector. The Commonwealth should work with the state's technology associations to create and implement a branding and marketing strategy to help the ITC sector reach its full potential.

"This modest list of funding priorities will help Massachusetts retain its status as a world-class center for high-tech and defense activity," wrote Champy and Levins in a cover letter for the report. "We look forward to working with all of the stakeholders in university, industry and government on this important agenda."

The report also recommends easing cost of living and traffic woes by implementing a sector-wide "Tech Shuttle" system throughout Eastern Massachusetts to connect suburban technology employers with employees who prefer to live in more urban or rural locations.



Mass Insight Corporation and its partners have convened Global Massachusetts 2015, a leadership initiative to create a sector-based vision for economic success in key and emerging industry sectors over the next decade. **The Global Mass 2105** goal is to build consensus on a global talent and innovation strategy that will make Massachusetts a world leader in R&D, while bringing economic opportunities and good jobs to the entire state. The initiative's global focus is on Asia and includes a major China-India conference in December including financial services, life sciences, climate change/energy and IT leadership.

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Please visit <http://www.massinsight.com> to view the report.