

MAINE STATE LEGISLATURE

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STATE OF MAINE
DEPARTMENT OF ECONOMIC
AND COMMUNITY DEVELOPMENT



JOHN ELIAS BALDACCI
GOVERNOR

JOHN RICHARDSON
COMMISSIONER

February 25, 2009

Senator Elizabeth Schneider, Senate Chair
Representative Nancy Smith, House Chair
Joint Standing Committee on Business, Research and Economic Development
Cross State Building
Augusta, Maine

Dear Senator Schneider and Representative Smith:

Attached you will find the report directed by The Act to Advance Maine Economy (PL2007, ch.644, sect.4) on leadership and entrepreneurial development. This legislation recognized the importance of targeting high-potential technology companies and aligning business development services to their specific needs.

We know that the economic impact of research and development companies served by state programs was \$2 billion in 2008; a 1:12 leverage of state's investment. In addition, tech companies offer 24% higher wages than the state average. It is essential that as a state we target limited resources to grooming high-growth potential entrepreneurs so they can take their respective businesses to the next level.

Per legislation, the Office of Innovation convened a diverse group of business service providers to identify a model of operation and determine the best way to adapt this objective to Maine's business environment. To achieve an environment for high-growth entrepreneurship, committee members agreed that a feeder system has to be developed based on more experiential learning not restricted by location and be regionally adaptable. The recommendation is to redirect resources in order to offer grants to facilities or entities that would administer objectives based on a shared curriculum.

After you have reviewed the adhoc committee's evaluation and recommendations, please let me know if you have questions or seek additional information. I can be reached at 624-9801. Thank you.

Sincerely,

Catherine S. Renault, Ph.D.
Director
Office of Innovation

Cc: Committee Members

Report to Joint Standing Committee on
Business, Research and Economic Development
February 25, 2009

**An Act to Advance the Maine Economy;
Leadership and Entrepreneurial Development**

The Office of Innovation, directed by the Act to Advance the Maine Economy Public Laws of Maine 2007, ch. 644, section 4, convened an adhoc group to explore and design a leadership and entrepreneurial program that matches “up to 10 high-growth potential entrepreneurs per year with best-in-class training, resources and mentors.” The objective was to better align business support resources with Maine’s potential growth sectors. Furthermore, the directive was to recommend sources of funding, such as “outside funds from foundations, government or other sources” and include a “detailed implementation plan” for the program.

On November 12, 2008, the Office of Innovation invited the following individuals to represent organizations detailed in the legislation:

- Leonard Agneta, director, Maine Patent Program. University of Maine School of Law
- Mark Delisle, director, Maine Small Business Development Center
- Rosemary Presnar, operations director, Maine Manufacturing Extension Partnership
- Steven Bazinet, executive director, Maine Center for Enterprise Development
- Betsy Biemann, president, Maine Technology Institute (MTI)

Representatives unable to attend were from the DECD Office of Business Development; Target Technology Incubator; Small Enterprise Growth Fund.

This report, due to the Joint Standing Committee on Business, Research and Economic Development by March 1, 2009, is the summary of the findings of the group.

Overview of Entrepreneurship in Maine. A recent survey by the Kauffman Index of Entrepreneurial Activity that measures the rate of business creation at the individual owner level ranked Maine as the fifth-best state in the nation for entrepreneurial activity due to the number of local resources available to new business owners. Maine has a healthy ranking when it comes to the number of start-ups. In 2006, the number of individual new business activities among the adult population was at 0.42 percent, whereas compared to nationally 0.29 percent of the adult population created new businesses each month.

According to Maine Development Foundation’s *Inventory of Maine Economic Development Programs*, Maine spends approximately \$200 million of state, federal and private funds each year on economic development. General business programs representing a wide scope of services account for about 79% of those funds; whereas, only 10% of those funds are directed toward research and development related activities including technical assistance, business assistance, equity, grants and tax incentives. Only 1 percent of the R&D funding goes to entrepreneurial support and technology transfer.

Maine excels in making programs available to spawn new start-ups, according to the *2008 Comprehensive Research and Development Evaluation*, released by the DECD/Office of Innovation. It performs less well in turning them into high performance businesses: The data revealed that “Maine does not generate many high-growth or gazelle businesses.” Instead of achieving higher growth rates,

too many firms stagnate. For example of the 4600 establishments started in Maine during 2006-7, only 21 companies moved from Stage One (1-9 employees) to Stage Two (10-99 employees).

The report identified several factors that may be contributing to the entrepreneurship challenges in Maine:

- Entrepreneurs may lack the critical skills needs to take their start-up to the next level;
- Companies may lack access to critical support, such as equity capital investment;
- Newer businesses may face challenges in connecting with growing international markets.

These indicators reveal the opportunity to first define high-growth potential and, in turn, focus on connecting those entrepreneurs to services unique to their needs.

Maine can learn from how other states approach creating a more comprehensive and sophisticated set of entrepreneurial support systems. Whether offered by states or nonprofits, service offerings typically focus on providing a customized assessment of the entrepreneur's skill sets, business plans, etc.; connecting the entrepreneur with collaborative support services and networks; and to support high-growth ventures. Per the legislative directive, the comparisons were focused on creating a "best-in-class training, resources and mentors" for high growth entrepreneurs.

Kansas Entrepreneurial Pipeline, developed by the Kansas Technology Enterprise Corporation (KTEC), takes a customized support effort and is a model for leadership and entrepreneurial development. Talented and entrepreneurial Kansans are identified and matched with best-in-class training, resources and mentors and encouraged to pursue a lifelong career as a technology entrepreneur in Kansas.

For Kansas, the primary goal is to forge strong professional ties between high potential technology entrepreneurs and the business communities in Kansas that can support their future endeavors. When entrepreneurs with Kansas roots discover that they can accomplish their goals from Kansas, then Kansas communities will benefit from the economic outputs of their creative business pursuits.

For aspiring technology entrepreneurs, this program offers the following benefits:

- Best-in-class training in the fundamentals of technology entrepreneurship.
- Three-day formal learning sessions each quarter. Innovators will receive cutting-edge education, skill-building and networking. Other components include self-assessments, growth plan, field trips and bonding processes.
- Access to accomplished mentors from technology businesses in or with strong ties to Kansas.
- One-year, \$40,000 stipend for discretionary use while exploring opportunities for a startup technology venture.
- Access to venture capitalists with the capabilities of financing early stage technology companies.
- Leverage use of resources to highest potential talent.

During the November 2008 meeting, Erik Pages, principal of DC-based Entworks, presented highlights of the program. As a KTEC consultant, he designed an in-house performance measurement system specifically for the Pipeline.

Pages explained the KTEC Pipeline is a state sponsored program with a budget ranging from \$400-\$800k depending on the curriculum. Based on the stipend, the line item for 10 participants is \$400,000. There have been two classes of entrepreneurs to date.

Based on initial information and programmatic review, the adhoc committee members (listed above) made the following analysis.

Pipeline Strength

- The program originated with strong ties to the universities.
- Began with initial focus on technology transfer and commercialization.
- Addressed the lack of tools to “groom” gazelle businesses.
- Designed as a year long “mini MBA” that creates close cohort connections.

Pipeline Weakness

- Currently there is not a standard evaluation tool to gauge program impact as it relates to entrepreneur’s success.
- Labor intensive public relations work is required to start-up the program. There is a direct correlation between the quality of curriculum advisors and the level of mentors that are recruited.
- Continuing to recruit the same level of quality applicants as the first two classes is considered to be a challenge over time.

Pipeline Opportunity

- Program participation requires a commitment to operate in the state for a set amount of time.
- KTEC created initial funding from lottery revenue stream.

Pipeline Threats

- The program has encountered a great deal of political pressure regarding who should be accepted as participants and who should be recruited as mentors
- There is a challenge to ensure geographic diversity
- The stipend is designed to decrease through the life of the program but has become more of an incentive than intended

Implications for Maine. After this analysis, committee members considered this information as it applies to the entrepreneurial landscape in Maine. Some of the highlights are as follows:

- In Maine, there is a break down between research and commercialization. Traditionally, principal investigators responsible for much of the university-based research and invention are not entrepreneurial by nature. Instead, they seek a safe, risk-reduced environment. Committee members agreed that a stipend for program participation could help address that.
- There has been a gap in linking start-up entrepreneurs with the wealth of proven high business leaders that work in or who have retired to Maine. In 2003, MTI offered the Tech Tracker program, with partial funding from the Small Business Administration (SBA), to help promote mentoring. What began as a general business mentoring program that matched technology entrepreneurs with mentors, evolved to focus the mentoring relationship on a specific challenge facing the company. After SBA funding ended, MTI continued it for another year before it determined to no longer fit MTI core competency or strategic plan.
- Although general leadership development programs such as Leadership Maine exist, and the SCORE volunteers have mentoring expertise, there is an opportunity to re-package and better align programs to better emphasize high-growth entrepreneurial leadership.
- Funding for entrepreneurship is hard to come by. The existing Technology Centers (i.e. incubators) are underfunded and struggling to serve their members companies because they lack adequate staffing to meet the demand for assistance.

- Considering these facts, it may be premature to set up an entrepreneurial leadership program when there is a clear need to expand existing services and resources.

Recommendation. Entrepreneurship is the “carrier” of innovation – the test of an innovation is not its novelty or its science, but its success in the marketplace. Moreover, it is well documented that only high-growth entrepreneurship has been found to have a significant impact on economic growth. High growth entrepreneurs generate relatively high employment growth and productivity improvement and in turn support regional employment growth. New firm formation is strongly associated with cultural creativity which in turn leads to regional economic vitality.

However, the committee found that entrepreneurial leadership programs such as the Kansas Entrepreneurial Pipeline are quite expensive for the number of entrepreneurs served, and should be offered after basic support services for high-growth entrepreneurs are in place. Therefore, the committee does not recommend proceeding with an entrepreneurial leadership program at this time.

Instead, to achieve an environment for high-growth entrepreneurship, committee members agreed that a feeder system has to be developed based on more experiential learning not restricted by location and be regionally adaptable. To achieve this, the recommendation is to redirect resources in order to offer grants to facilities or entities that would administer objectives based on a shared curriculum.

Further recommendations include:

- Create the flexibility for local institutions or entities to bid for the “rights” to present certain programs within their service center instead of mandating only a standard, mini-MBA curriculum.
- Decentralize implementation of services (or curriculum) to allow for more creativity and need-based connectivity.
- Redirect funding from the incubators to this effort. Incubators can bid to deliver projects best aligned with their core competency; and most importantly, they will be more responsive to the needs of their companies and affiliates.
- Promote flexibility in “grants” so that entrepreneurs are not confined or limited strictly by the bricks and mortar of an incubator.
- Designate the Office of Innovation as the catalyst for this effort.
- Structure participation in a pre-described number of curriculum objectives as a part of the requirements for MTI Development Award funding.
- Foster the development of a statewide system to connect entrepreneurs and business to university and nonprofit R&D facilities and expertise. This type of mentorship program can be decentralized to several strong associations and coordinated through the Office of Innovation.
- Create a feeder system that leads to building local networks and strengthening the state’s “culture” of entrepreneurship.