

FOSTERING AN ENTREPRENEURIAL CLIMATE
MAINE FUTURE FOREST ECONOMY PROJECT



**CURRENT CONDITIONS AND FACTORS INFLUENCING THE
FUTURE OF MAINE'S FOREST PRODUCTS INDUSTRY**

MARCH 2005

PREPARED FOR:

**DEPARTMENT OF CONSERVATION – MAINE FOREST SERVICE
AND
MAINE TECHNOLOGY INSTITUTE**



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This material was prepared with financial support from the Department of Conservation – Maine Forest Service and the Maine Technology Institute. However, any opinions, findings, conclusions, or recommendations expressed are those of Innovative Natural Resource Solutions LLC unless otherwise noted, do not necessarily reflect the views of the Maine Department of Conservation, the Maine Forest Service, the Maine Technology Institute, or the project’s Advisory Committee, and do not constitute an endorsement of products or services mentioned.

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Printed Under Appropriation 013-04A-5180-512-4099 FFE3

Developed Under a Cooperative Forestry Assistance Grant CFDA 10.664

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**FOSTERING AN ENTREPRENEURIAL CLIMATE
IN MAINE'S FOREST INDUSTRY**



Fostering An Entrepreneurial Climate in Maine's Forest Industry

Entrepreneurship is the thinking and mindset that allows individuals and companies to take risks, move into new markets, and grow. As Maine forest industries continue to face increased competition, issues unrelated to being a least-cost producer will be a key part of the success, growth, or even survival of many companies. In some forest industry sectors, Maine firms may find that “becoming cost competitive is impossible, or is not enough.”¹⁷⁶ Factors related to customer service, managerial ability, entrepreneurial spirit, or employing the most appropriate business model may be critical to the success of Maine forest industries.

In Maine, an entrepreneurial approach to today's challenges faced by the forest industries will be a necessary component of future success. This is true not only of individual firms and the industry as a whole, but of state government as well. Some experts attribute “nearly 70 percent of economic growth [nationally] to entrepreneurial activity”¹⁷⁷; for this reason it warrants specific discussion as related to the future of Maine's forest economy. The following is a discussion of how Maine forest industries and government can move to foster an entrepreneurial climate in the state.

Definitions

While discussions of encouraging and supporting entrepreneurial behavior are common, definitions are not. For that reason, the following definitions are offered to provide a common understanding of what is meant:

Entrepreneurship: “the ability to amass the necessary resources to capitalize on new business opportunities. This term is used frequently to refer to the rapid growth of new and innovative businesses, and is associated with individuals who create or seize business opportunities without regard for resources under their control.”¹⁷⁸

Entrepreneur: “one who organizes, manages, and assumes the risks of a business or enterprise. While an entrepreneur can be a small businessperson, not all small businesspersons are entrepreneurs. Entrepreneurial enterprises focus on new and innovative products and/or processes. They are growth-oriented and aggressively strive to capture market share. Entrepreneurial enterprises may begin as small businesses but often grow to be large firms, bringing wealth to their communities.

¹⁷⁶ Schuler, Albert and Buehlmann, Urs. *Identifying Future Competitive Business Strategies for the U.S. Residential Wood Furniture Industry: Benchmarking and Paradigm Shifts*. USDA Forest Service Northeast Research Station General Technical Report NE-304. November 12, 2002.

¹⁷⁷ National Governors Association Center for Best Practices. “A Governor's Guide to Strengthening State Entrepreneurship Policy.” 2004.

¹⁷⁸ National Governors Association Center for Best Practices. “A Governor's Guide to Strengthening State Entrepreneurship Policy.” 2004.



Entrepreneurs frequently reinvest earnings to expand their original enterprise or to create new ventures.”¹⁷⁹

Based on these definitions, it is clear that entrepreneurial behavior can occur in any size organization. While entrepreneurial behavior is often associated with small and micro businesses, the size of the organization is not nearly as important as its approach and attitude. Entrepreneurship is, above all else, an attitude adopted by businesses, government agencies, or other organizations that seek creative solutions to issues while eliminating unnecessary obstacles.

Entrepreneurship in Maine’s Forest Industry Cluster

Maine’s forest industry “cluster” includes a large number of sub-clusters, including pulp & paper, sawmills, wood product manufacturers, forest ownership and management, timber harvesting, and biomass power generation. “All of these sectors are highly interconnected and interdependent, with each sector playing a key role in maintaining the health of the industry.”¹⁸⁰

The state’s overall economy is tied, in part, to the competitiveness and innovation of the state’s forest industry cluster. Clusters grow and expand because of the innovation, knowledge and know-how that is generated and shared. A study completed in 2002 for the Maine Science & Technology Foundation noted that “the forest products industry demonstrates the strongest cluster characteristics of any sector in Maine.”¹⁸¹ The economic growth potential of industry clusters comes from the innovation of entrepreneurs who translate new ideas into business practices.

In order for Maine firms to fully realize their entrepreneurial potential, two separate but related groups must seek to build a climate of innovation: the forest industry, and Maine’s state government.

Maine’s Forest Industry Building Entrepreneurship

One of the best ways that entrepreneurs develop new ideas and build innovation is through the networks they develop. As noted by the Kauffmann Foundation in a report prepared for the State of Maine:

“The existence of peer networks of entrepreneurs is a critical element of the continuous learning cycle associated with successful entrepreneurship. Until recently entrepreneurial networks in Maine were limited to trade associations that had historically focused more on advocacy than on individual development.”¹⁸²

¹⁷⁹ Kentucky Innovation Commission. *A Strategic Plan for the New Economy*. March 2002.

¹⁸⁰ Colgan, Charles, Colin Baker, Nan Butterfield and Michael Cote. *Assessing Maine’s Technology Clusters*. Prepared for the Maine Science & Technology Foundation. June 2002.

¹⁸¹ Colgan, Charles, Colin Baker, Nan Butterfield and Michael Cote. *Assessing Maine’s Technology Clusters*. Prepared for the Maine Science & Technology Foundation. June 2002.

¹⁸² Ewing Marion Kauffman Foundation. *Promoting and Supporting an Entrepreneurship*



In Maine's forest industry, it is largely true that the existing trade associations are focused on advocacy and public policy, and have not put their efforts toward development of peer development and idea-sharing. This is appropriate, as the state's forest industries clearly desire a strong voice on legislative and regulatory issues. The existing organizations appear to serve this function well.

However, this focus on public policy -- as critical as it is to Maine's forest industries -- has not fully developed venues for idea sharing, professional development, peer learning, and networking. As a mature industry, many in Maine's forest industry may believe that this is not necessary, or will not provide them benefits.

As noted by Harvard Professor Michael Porter:

“Trade associations can provide a forum for the exchange of ideas and a focal point for collective action in overcoming obstacles to productivity and growth. Associations can take the lead in such activities as establishing university-based testing facilities and training or research programs; collecting cluster-related information; offering forums on common managerial problem; investigating solutions to environmental issues; organizing trade fairs and delegations; and managing purchasing consortia.”¹⁸³

A number of individuals we spoke to as part of this research indicated that they seek information on a wide variety of topics, including anticipated changes in the marketplace, programs available to assist Maine industries, marketing of Maine forest products, and opportunities in the developing renewable energy marketplace.

It appears that there is an opportunity for Maine forest industries to create a forum – either within or external to existing trade associations – that could bring this information to industry leaders. If a forum like this is to start, it must come from within the industry, and it must meet the needs identified by Maine forest industries. It should *not* seek to replicate or replace the existing advocacy function played by Maine's forest industry trade associations, but should instead focus on the needs of forest industries that are best developed through information sharing and network development.

A good example of such an organization in Maine is the Environment & Energy Technology Council of Maine (E2 Tech Council). This organization is focused on the “creation of a communication, networking and information infrastructure that creates business development opportunities, provides technical assistance and increases knowledge regarding innovation.”¹⁸⁴ Some Maine forest industries may benefit from

-Based Economy in Maine. December 20, 2002.

¹⁸³ Porter, Michael E. “Clusters and the New Economics of Competition.” *Harvard Business Review*. November – December 1998.

¹⁸⁴ www.e2tech.org Accessed on August 31, 2004.



participation in this organization or some of its events, and this organization may serve as a model for Maine forest industries seeking to learn about and share new ideas.

It must be noted that such a forum, like all trade groups, must be careful not to engage in any activity that would violate anti-trust laws. This includes any activities that would have potential competitors directly address or discuss “prices (including bids), costs, production capacities, credit standards, marketing strategies, market shares, customer or supplier classification, sales territories, sales policies, or any other matters covered by State or Federal antitrust laws.”¹⁸⁵

The sharing of success stories is also a critical part of developing an entrepreneurial culture, where firms publicly highlight their successful adoption of new ideas and business practices. This practice runs largely counter to the existing culture of Maine’s forest industry, where innovations are kept close to the vest, and information sharing is often discouraged. Maine industries should work to identify what success stories can be shared, and find ways to do so. This has a number of benefits, including idea sharing within the industry and building of public confidence in the creative aspects of Maine’s forest industry.

State Action to Build Entrepreneurship

As important and critical as forest industry action is to building upon the entrepreneurial climate in Maine, the state must also build a climate that welcomes new ideas. Many states believe that they want to encourage entrepreneurial development, but do so without adopting the attitude of an entrepreneur. As noted in a report prepared for governors across the nation, “State entrepreneurship policies appear more likely to succeed to the extent that states become as entrepreneurial as the clients that they serve.”¹⁸⁶

Based on conversations with a large number of “clients” of Maine state government – forest industries – it appears that Maine does not currently have what would be considered an entrepreneurial attitude. Maine forest industries report a number of frustrations with Maine state government, from unreturned phone calls to the perception of confusing and ever-changing regulations.

In a report prepared by the National Governor’s Association Center for Best Practices¹⁸⁷, the following suggestions and observations are made about ways that state governments can build an entrepreneurial climate:

¹⁸⁵ New Hampshire Sustainable Forestry Initiative SM Anti-Trust Statement, courtesy of the New Hampshire Timberland Owners Association.

¹⁸⁶ National Governors Association Center for Best Practices. “A Governor’s Guide to Strengthening State Entrepreneurship Policy.” 2004.

¹⁸⁷ National Governors Association Center for Best Practices. “A Governor’s Guide to Strengthening State Entrepreneurship Policy.” 2004.



- “A greater awareness of entrepreneurial businesses’ sensitivities to regulations can help states maintain a more entrepreneur-friendly business climate and prevent regulatory missteps that disadvantage growth companies.”
- “State laws and regulations should be streamlined with the goal of reducing the costs of regulatory compliance for entrepreneurs”
- “All businesses suffer when the cost of compliance with necessary state and local regulations is excessive or when regulatory processes are inefficient, duplicative, or non-transparent. A Byzantine system of business permitting and reporting around financial, environmental, unemployment insurance, and other requirements can diminish significantly a state’s competitiveness. If complex and redundant permitting and reporting procedures plague businesses at the county or municipal level as well, the negative effects on business competitiveness can be multiplied.”
- “Potential entrepreneurs may never undertake starting a business if regulatory barriers are too high. In such cases, early-stage companies may be tempted to move to jurisdictions where regulations are less burdensome.”
- “States should pursue comprehensive reviews of rules and regulations to initiate reform efforts. Reviews may be focused on eliminating unnecessary or duplicative regulations, harmonizing state and federal regulations to reduce compliance burdens, or providing waivers or variances.”
- “[States should] require that agencies analyze the economic impact of proposed new regulations and rules.”
- “States should work to become more entrepreneur friendly, both symbolically and practically. Entrepreneurs value government officials and public leaders who recognize and communicate the importance of entrepreneurs’ contributions to their communities, and who put this into practice by working to achieve greater efficiency through regulatory streamlining, uniformity, and transparent compliance practices.”

Maine has taken positive steps to address some of these issues, including this effort (the Maine Future Forest Economy Project) and the Governor’s Task Force on the Sustainability of the Forest Products Industry. Maine state government should be applauded for these and other efforts to address the needs of Maine industries. However, it would be a mistake to believe that these efforts alone, or recommendations from these efforts, will be enough to make Maine a place that is as welcoming of entrepreneurial thinking as possible. Developing an entrepreneurial climate is an ongoing process, not a checklist of tasks to be completed. Only by continually asking “what can Maine do to be more welcoming of entrepreneurs?” – and implementing ideas that flow from answering this question – will Maine fully realize its potential as a state that welcomes and encourages entrepreneurial thinking in all parts of Maine’s economy, including the forest products industry.



Case Study – Business Plan Competition^{188, 189}

In an effort to spur entrepreneurial thinking, some colleges or states have conducted “business plan competitions”, with the winner receiving funding for the proposed business. In New Hampshire, Governor Craig Benson spearheaded such an effort last year, and four companies split a total of \$250,000 in funding.

In New Hampshire, the effort was directed not specifically at forest industries, but at businesses in the biotechnology sector, financial services, and in the rural part of the state. The contest, entirely funded by a private donation¹⁹⁰, was overseen by a steering committee that included business school professors, business leaders, state officials, venture capitalists, and bankers.

Entrants were asked to submit a business plan (very little guidance was provided as to what constitutes a business plan), and all submissions were made on-line. A group of roughly two dozen judges – separate from the steering committee – was asked to rate and review the 211 submissions. In each category (biotechnology, financial services, and rural development) three finalists were selected to give presentations to a panel of judges. These presentations were made in public, with other investors and business leaders invited to listen.

This effort spurred entrepreneurial activity in a number of ways:

- Each of the award winners received funding, which was used to help start a new company or expand the offerings and activities of existing firms;
- A number of firms that participated in the presentations but did not “win” the competition were later contacted by lenders who judged or observed the presentations, and many of these firms received funding;
- At least two hundred and eleven (211) businesses and potential businesses went through the exercise of business planning, and had a document that they could use with lenders and other investors when discussing their business idea; and
- The organizers will never know how many individuals or firms began the exercise and dropped it because they discovered the idea did not make economic sense. While not leading to new business activity, knowing when not to pursue an idea is an important part of business growth and development.

¹⁸⁸ Personal Communication, Patrick McDermott, Public Service of New Hampshire, September 2, 2004.

¹⁸⁹ Personal Communication, Steve Boucher, NH Department of Resources & Economic Development, August 25, 2004.

¹⁹⁰ *Disclosure:* PSNH, the firm that funded this program, is a client of INRS on other issues.



Action Steps

As discussed above, there are a number of steps that Maine forest industries and government can take to better develop the state's entrepreneurial climate. It should be noted that this is an area where state government *cannot and should not* force industry action, and seeking to do so would run counter to the idea of developing an entrepreneurial culture in Maine's forest industry.

Maine forest industries, or individual sectors, may want to develop forums for the purpose of sharing new information and ideas, learning about potential trends and new technologies in the industry, and funding or technology transfer opportunities. Additionally, sharing of success stories could have meaningful benefits in terms of spurring innovative thinking elsewhere in the cluster and developing a public perception of the forest industry as creative and dynamic.

For state government, some of the details of how the state can be most welcoming of entrepreneurs are outlined above. All of these suggestions -- from streamlining state government, one-stop permitting, harmonizing state and federal regulations, and conducting economic impact assessments of pending regulations -- get at one thing: developing a government structure that makes doing business in Maine as simple as possible. Maine has taken a number of steps in this regard, and these are positive developments. However, developing a climate that welcomes and supports entrepreneurs is an ongoing process, and Maine should continue to improve upon its good efforts to date.

