MAINE DEVELOPMENT FOUNDATION

Investment Imperative II Survey with 1,000 Maine Businesses

February 2010
A Joint Research Project to Understand Actions for Future Economic Growth in Maine

Prepared for:

MAINE STATE CHAMBER of COMMERCE

About the Author

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Patricia joined MDF in 2008 as the Senior Program Director of the Maine Employers' Initiative, an initiative to increase educational attainment among Maine's adult workforce. Prior to joining MDF, she operated her own consulting practice for ten years providing economic analysis, program evaluation and research consulting to clients in energy, economic development, health, education and social service fields. Patricia has a B.A. in Economics and Classical Studies from the College of William and Mary and an M.S. in Resource Economics from the University of Massachusetts.

About the Maine Development Foundation

Maine Development Foundation supports a high quality of life for all Maine people. As a private non-profit membership organization, we do this by empowering leaders, strengthening communities, and guiding public policy.

Our flagship programs include Leadership Maine, Policy Leaders Academy, Maine Downtown Center, Maine Employers Initiative, and Maine Economic Growth Council (*Measures of Growth*).

Through these programs we stimulate new ideas, develop Maine's leaders, and provide a common ground for solving problems and advancing important issues.

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High Level Findings of Survey with 1,039 Business Leaders, February 2010

The overwhelming majority of 1,039 business leaders agree that the priorities for Maine's next governor should focus on improving the major business cost drivers:

- Costs of health insurance/costs of health care
- Energy costs
- State regulations

Not surprisingly, these factors were reported as having the greatest negative impact on their businesses, even more negative than personal, property and sales taxes.

Business leaders were also in agreement about the factors that most positively impacted their businesses. **The positive factors are "place based**" and depend on the availability of certain infrastructure or state based resources:

- Availability of high speed internet
- Recreational resources and natural features
- Maine based research and development

Follow-up interviews provided additional clarity and insight to the survey responses:

Health-Care Costs

- Businesses understand the importance of providing health insurance to all people, but are stymied by the costs. Most are knowledgeable about the relationship between health-care costs and mention these growing costs as the underlying issue to address.

Energy Costs

- Dependent on oil for transportation, heating, electricity and process needs, businesses feel the effects of oil price volatility and are looking for alternatives.
- However, many if not most, are skeptical that the rush to implement conservation efforts, build wind turbines, and transmission wires are fads and will not yield any cost savings.
- Many remember the false promises of reduced prices when the electric markets were deregulated and are worried the trends of increased prices will continue.

Business/Regulatory Climate

- There is a real divide between the business community and political bodies. Advocates and politicians paint businesses as "bad" and ill-intended. Businesses consider politicians and government officials as naïve or misinformed. The tension has grown to the point where it is negatively impacting business investment and economic growth.
- Businesses and political powers need to push through these issues to establish a more collaborative approach or economic growth will continue to stall in the state.

Background and Methods

The Maine State Chamber and the Maine Development Foundation (MDF) have partnered on a research effort to identify the investments and policies that are needed to support long-term economic growth in the state. Based on the findings from the research, the group will articulate a common vision and develop a set of goals with specific action steps to move Maine forward. The call to action will be used to inform the upcoming gubernatorial and legislative elections.

The research effort includes three components:

1. A review of recent reports and studies conducted on key public policy issues covering the areas of economic development, education, health care, energy, transportation, communications, natural resources, and fiscal policies.
2. An analysis and discussion of key economic performance indicators similar to a report published in 2002 called, The Investment Imperative.
3. A web-based survey of Maine's business leaders to understand their own experiences with investment and policy issues in the state.

This report discusses the findings from the web-based survey conducted with Maine's business leaders.

Survey Methods

The survey was designed to understand the investment experience and opinions of senior managers from Maine's business community. It covered four broad categories related to economic growth and investment:

1. Recent investment activity compared to previous year's activity.
2. Influence of a set of public policy factors on the organization.
3. Top three priorities for the next governor.
4. Opinion on the top three supports as well as barriers to economic growth in Maine.

The survey also included questions to understand the employment size, industry type, and locations of the organizations of the survey respondents.

Participant Recruitment

MDF worked in partnership with several trade and professional associations to distribute the survey to their members on MDF's behalf. In all, from February 1 through February 16, 2010, 1,039 business leaders responded to the survey, representing a cross section of Maine's businesses.

The following organizations distributed the survey:

- Maine State Chamber of Commerce
- Maine Development Foundation

- Local Chambers/Maine Association of Chamber of Commerce Executives (MACCE) (Greater Portland, Bangor, Androscoggin, Mid-Maine, Augusta, Presque Isle and others)
- Maine Pulp and Paper Association
- Maine Forest Products Council
- Maine Hospital Association
- Maine Higher Education Council
- Maine Better Transportation Association
- Manufacturers Association of Maine
- Maine Farmland Trust
- Maine Renewable Energy Association
- Maine Tourism Association
- Gulf of Maine Research Institute Board of Directors
- Others

Survey Limitations

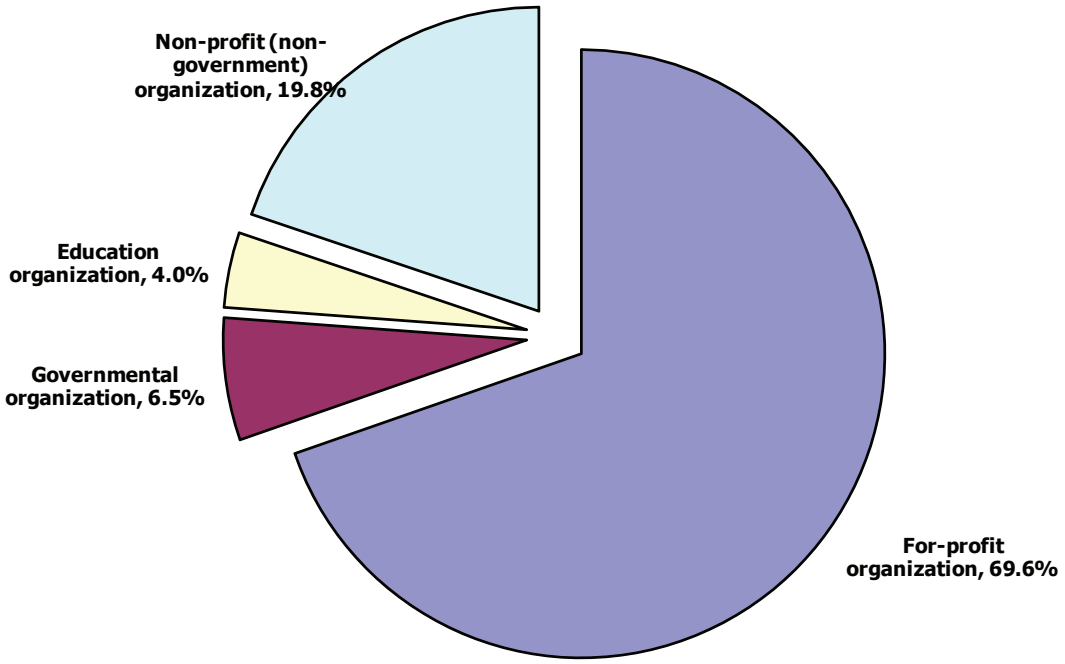
Like any research effort, the web-based component of the greater "Investment Imperative" research has several limitations that must be considered when reviewing the findings. The first limitation is that the sampling and recruiting approach employed a "convenience" method. That means that the group of participants was not selected as a random sample from the greater population. However, with such a large response - 1,039 respondents, representing a broad mix of industry types - the findings are highly likely to represent the greater experiences of the business community in Maine. The second limitation is that the survey used a web-based platform and may not have reached those businesses that do not use the internet for business correspondence or the communication may have been screened before reaching the business leader. Finally, the responses may reflect the influence of national and state issues that were highlighted in the media during the time of survey administration. While these limitations, and the limitations of any survey effort, are important to understand in drawing conclusions, there is sufficient evidence to provide great confidence that the findings are representative of the thoughts of the greater business community in Maine.

Findings

Respondents

The survey respondents represented a cross section of businesses in the state including public and private sectors, small and large businesses, as well as all regions. The respondents were mostly senior managers or owners (77%) from organizations headquartered in Maine (88%). The group closely represents the distribution of business types in the state, with 70% from for-profit business and 20% from non-profit and the remaining from public agencies. See Figure 1. Over 40% had more than one location, with 30% having 2 to 9 locations throughout the state.

Figure 1. Respondents Represented a Mix of Business Types



Source: Maine Development Foundation/Maine State Chamber of Commerce Web Survey with Business Leaders February 2010, n=1,039.

Comparing the mix of business categories represented in the survey to the business census for Maine, shows that all categories were included and that the representation of respondents is largely proportional to the actual number of business establishments by type in Maine. Retail and social services are well represented in the survey but are slightly lower than their occurrence in the state. Professional and technical organizations, public administration and education professionals were slightly higher compared to their occurrence in the state.

According to the U.S. Census Bureau's County Business Patterns 2007 for Maine, 96% of all establishments have fewer than 50 employees; the remaining 4% have more than 50. Table 1 shows the distribution of survey respondents by business employment size. Larger employers have a higher representation in the sample than the number of establishments, but the proportions of respondents mirror their share of total employment in the state.

Table 1. Respondents Represented both Smaller and Larger Organizations

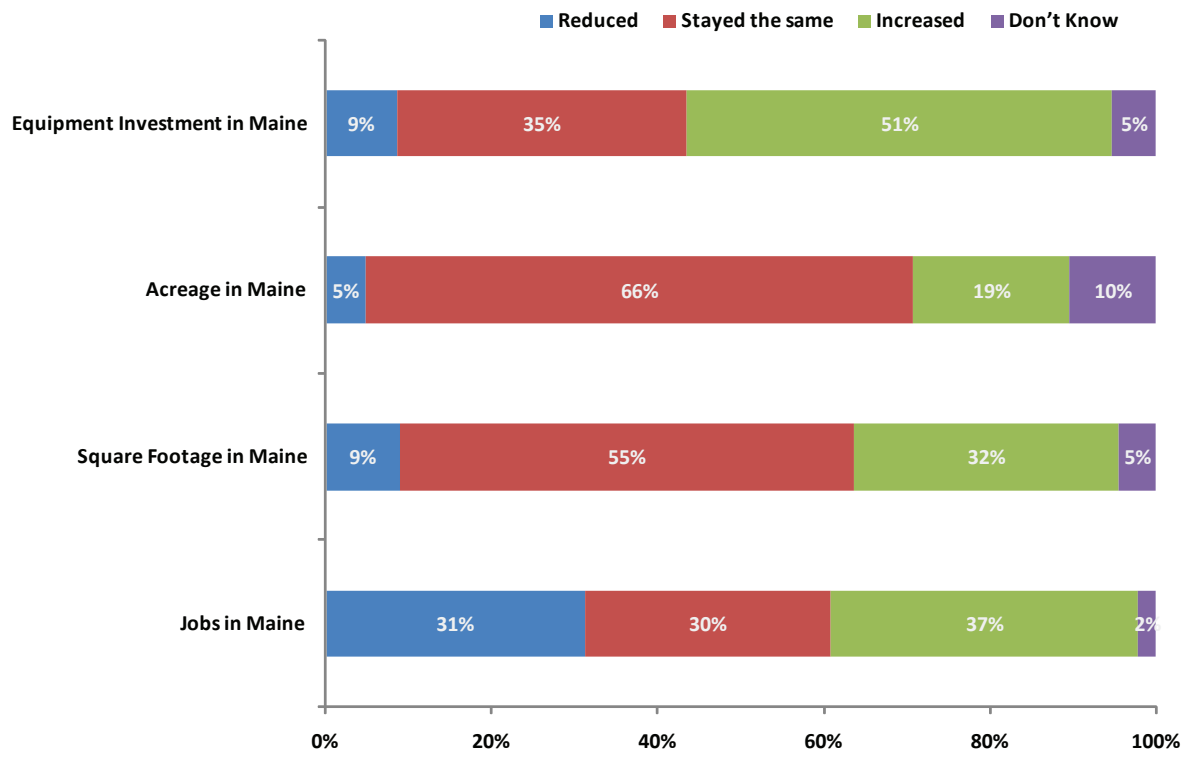
Number of Employees	% Respondents
1	8%
2-9	31%
10-49	23%
50-99	9%
100-249	13%
250-499	6%
500+	10%
Don't Know	0%

Investments in the Past 5 Years

There is no question that the current recession has changed the investment decisions of Maine's businesses, forcing many to make difficult trade-offs among decisions. So, to understand the longer term decisions made reaching back prior to the recession, the survey asked business leaders about their decisions in the previous 5 years.

When asked about the relative change in investments made in Maine over the last 5 years, over one-half (51%) of all respondents indicated that they had increased investment in equipment, and 37% increased jobs. The acreage and square footage remained either the same as previous years or had increased for a few. See Figure 2.

Figure 2. Over the Past 5 Years, Equipment Investment Increased, but Jobs Decreased or Remained Unchanged



Source: Maine Development Foundation/Maine State Chamber of Commerce Web Survey with Business Leaders February 2010, n=1,039.

Investments in Equipment

Overall, slightly more than one out of every two respondents indicated that their organization invested in equipment during the previous five years. Larger businesses, those with more than 50 employees, had a higher percentage reporting investment (61%) and smaller businesses a lower percentage. Of those businesses that invested in equipment in the last five years (51%):

- 71% were for-profit,
- 20% reduced jobs during the same period; 54% increased jobs,
- 48% increased square footage and 28% acreage.

Investments in Square Footage and Acreage

Close to one out of every three respondents (32%) reported an increase in their organization's square footage during the last five years, with 55% reporting no change and 9% indicating a reduction. One out of every five respondents (19%) indicated an increase in acreage, with most, (66%) reporting no change.

Larger organizations (over 50 employees) were more likely to report an increase in square footage (43%) as well as an increase in acreage (25%).

Investments in Jobs

Just over one-third of all respondents reported that their organizations had increased the number of jobs in the past five years. Larger businesses, those with more than 50 employees, had a higher percentage reporting increasing jobs (48%) and smaller businesses a lower percentage. Of those businesses that invested in jobs in the last five years (37%):

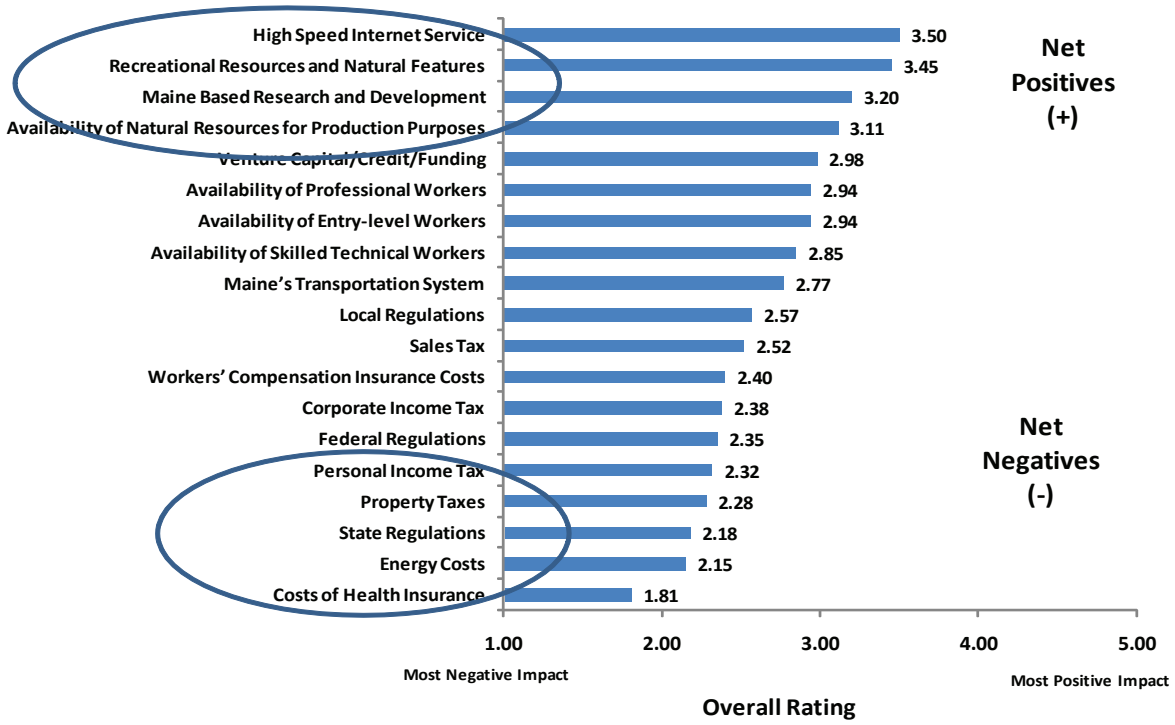
- 25% were non-profit, 64% were for profit, and the remainders were public employees.
- The largest business categories for increasing jobs were the health care/social assistance and professional and technical sectors.

Impact of Key Public Policy Issues on Own Organization

The portfolio of public policies in Maine, like other states, influences business decisions by inducing some practices and prohibiting or limiting other actions. A wide range of business practices are governed by government policies and regulations including employee relations, environmental impacts, taxation, safety, training, building codes, product related, and reporting to name a few. Policies and regulations are established through legislative processes and agency rule making, and are meant to balance the interests of residents, the business community and local and state governments. Some legislative mandates are seen as either business opportunities or supportive of business while others are considered restrictive or negatively impacting business; the ultimate influence can vary according to business type, size, maturity, or location.

Respondents reported the influence on their organizations of 19 business-related public policy issues. They were asked to indicate if the factor had a very negative impact, somewhat negative impact, no impact, somewhat positive impact, or a very positive impact. The responses were assigned a weight of one for the most negative to five for the most positive. The average rating for each factor is shown in Figure 3.

Figure 3. Place-Based or Location-Based Resources were Most Common Positive Influences on Business, Cost Items were the most Common Negative Factors



Source: Maine Development Foundation/Maine State Chamber of Commerce Web Survey with Business Leaders February 2010, n=1,039.

As shown in the figure, **the top three positive factors include**:

1. high speed internet service,
2. recreational resources and
3. natural features.

These positive influences are followed by Maine based research and development and availability of natural resources for production purposes.

The top three factors with a **negative impact include:**

1. the costs of health insurance,
2. energy costs and
3. state regulations.

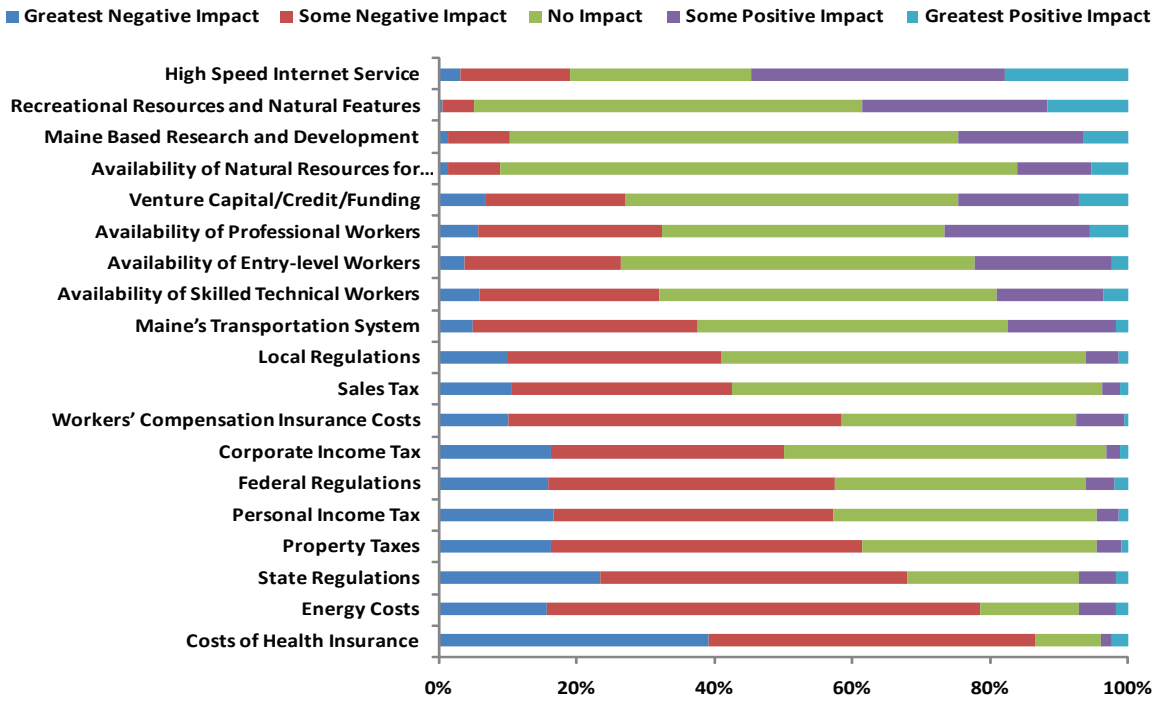
Interestingly, taxes, while a negative influence, trail the lowest three negative influences by a considerable margin. Table 2 shows the relative scoring of the impact of the 19 factors, where 1 are those with the most favorable ranking and 19 are those with the least favorable, indicating the greatest negative impact on business.

Table 2. Impact of Public Policy Issue on Own Organization by Rank, Highest / Positive (1) to Lowest/Negative (19)

Economic Issue	Ranking of Issue by Influence on Businesses (1= Greatest Positive Influence, 19= Greatest Negative Influence)				
	Overall Rank	By % Net Positive	By % Net Negative	Larger Business >50 employees	Smaller Business < 50 employees
High Speed Internet Service	**1**	**1**	**4**	**1**	**1**
Recreational Resources and Natural Features	**2**	**2**	**1**	**2**	**2**
Maine Based Research and Development	**3**	6	**3**	**3**	**3**
Availability of Natural Resources for Production Purposes	**4**	9	**2**	**4**	**4**
Venture Capital/Credit/Funding	**5**	**4**	**5**	6	**5**
Availability of Professional Workers	6	**3**	8	7	6
Availability of Entry-level Workers	7	**5**	6	**5**	7
Availability of Skilled Technical Workers	8	7	7	8	8
Maine's Transportation System	9	8	9	9	9
Local Regulations	10	14	11	10	10
Sales Tax	11	**18**	10	11	11
Workers' Compensation Insurance Costs	12	12	14	12	14
Corporate Income Tax	13	**19**	12	15	12
Federal Regulations	14	13	15	16	13
Personal Income Tax	15	**16**	13	14	15
Property Taxes	**16**	15	16	13	17
State Regulations	**17**	11	17	18	16
Energy Costs	**18**	10	18	17	18
Costs of Health Insurance	**19**	**17**	19	19	19

When looking at the findings by employment size, the results show differing priorities. For the larger organizations, those with 50 employees or more, state regulations are the second most negative factor before the third place - energy costs. For smaller organizations, property taxes are the third most negative factor, passing state regulations in order of negative impact. Considering the net positives by size of business also shows some differences. The top four factors are the same, however, the fifth highest positive factor for larger companies is the availability of entry-level workers; for smaller businesses, it is the access to credit. See Table 2.

Figure 4. The Strength of the Influence on an Organization Varies by Issue



Source: Maine Development Foundation/Maine State Chamber of Commerce Web Survey with Business Leaders February 2010, n=1,039.

Looking at the list of factors by eliminating the "no impact" responses and focusing on the assignment of only positive or negative responses shows the strength of the factors as well as highlights some differences in the relative importance of some of the factors. See Figure 4. The cost of health insurance is clearly the strongest negative impact with more than 85% of all organizations assigning a negative impact. At the other end of the scale, high speed internet service is seen as a positive impact for over 50% of the respondents, however, 20% assigned a negative impact on this issue.

On the positive side, the availability of professional workers moves up on the list to the top three positive factors. On the negative, workers compensation insurance costs moves to the fifth most negative factor.

Priorities for Maine's Next Governor

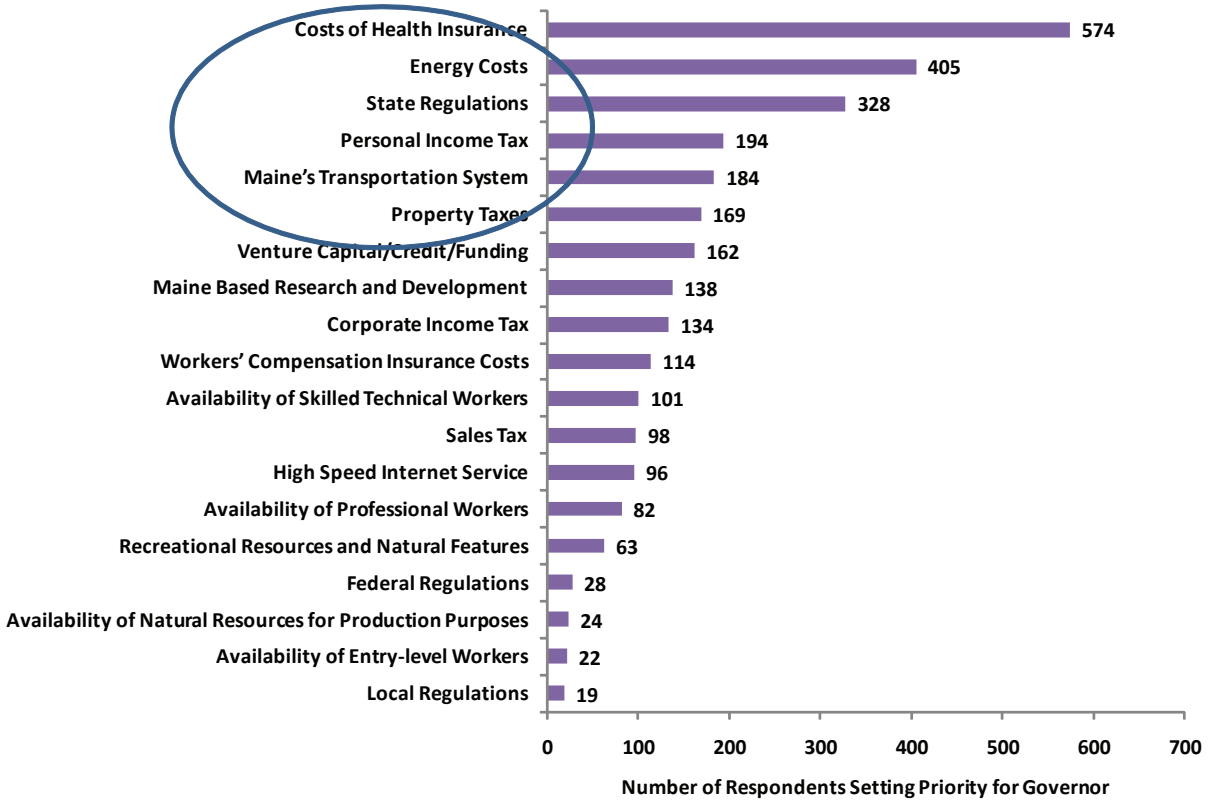
While many factors can influence a business operation and business growth, there are some that can be resolved in the private sector and others that require government intervention or policy guidance. To understand which issues business leaders thought should be addressed by Maine's next governor, the survey asked respondents to assign priority by selecting the top three from the list of nineteen economic policy issues.

When asked to choose the top three priorities for Maine's next Governor and Legislature to tackle to help grow the economy, the respondents overwhelmingly selected the very same issues that they expressed were negatively impacting their businesses:

- Health-insurance costs
- Energy costs
- State regulations

Not only were these the same issues that were rated as negative influences on businesses, the three were clearly favored by the majority of respondents. The fourth highest issue selected to be in the top three, personal income tax, falls far behind the first three in the selection. See Figure 5.

Figure 5. Priorities for Maine's Next Governor and Legislature



Source: Maine Development Foundation/Maine State Chamber of Commerce Web Survey with Business Leaders February 2010, n=1,039.

Looking more closely at responses from smaller organizations (those with fewer than 50 employees), shows that more than one-half selected health-insurance costs as a priority, well ahead of the second choice, energy costs, with 35%. The third item for the governor's priority list is state regulations, close behind energy costs. Interestingly, the fourth most popular priority for smaller businesses was Maine's transportation system. See Table 3.

For larger organizations, the top three choices were close together in frequency of selection, followed by each of the three tax categories. The seventh most frequent choice for top three among the nineteen was to address the availability of technical workers.

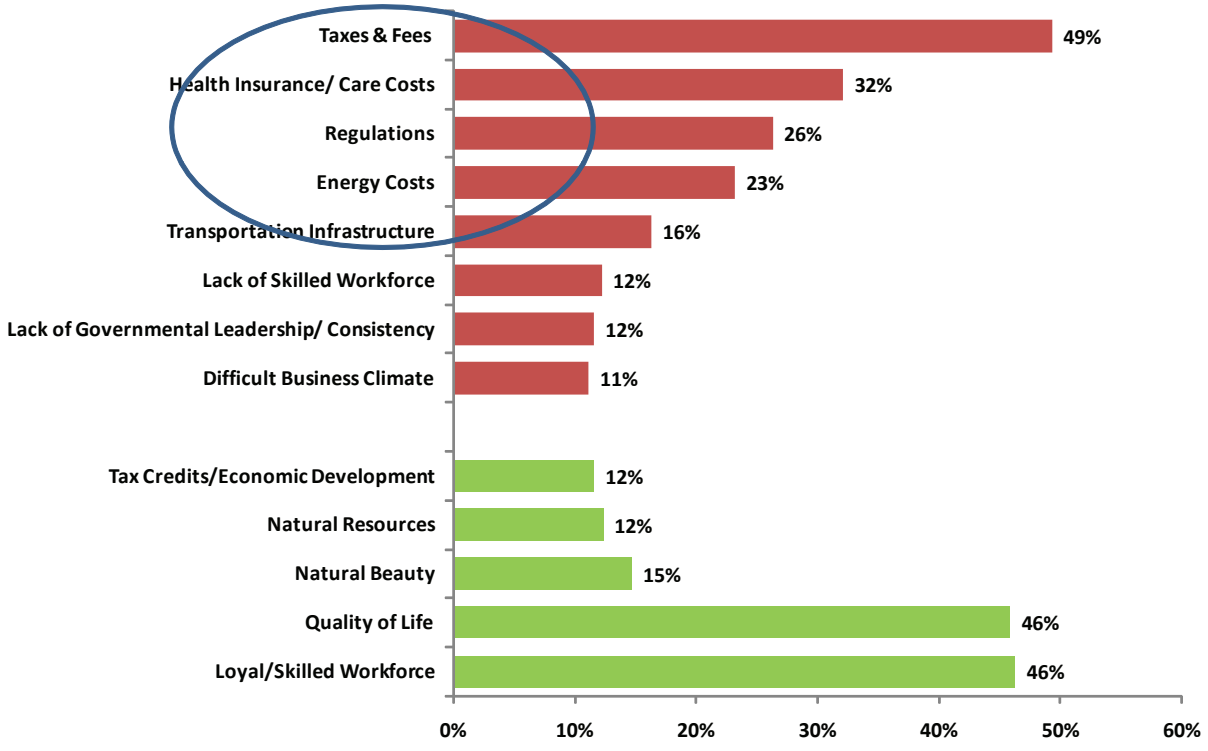
Table 3. Top Three Priorities for Next Governor/Legislature by Overall Rank, Highest /Positive (1) to Lowest/Negative (19)

	Rank of Top Three Choices		
	Overall	**Larger Business**	**Smaller Business**
Costs of Health Insurance	**1**	**1**	**1**
Energy Costs	**2**	**2**	**2**
State Regulations	**3**	**3**	**3**
Property Taxes	**6**	**6**	**6**
Personal Income Tax	**4**	**4**	**5**
Federal Regulations	16	15	18
Corporate Income Tax	9	**5**	11
Workers' Compensation Insurance Costs	10	12	12
Sales Tax	12	14	9
Local Regulations	19	19	17
Maine's Transportation System	**5**	8	**4**
Availability of Skilled Technical Workers	11	7	14
Availability of Entry-level Workers	18	16	19
Availability of Professional Workers	14	11	15
Venture Capital/Credit/Funding	7	9	7
Availability of Natural Resources for Production Purposes	17	18	16
Maine-Based Research and Development	8	10	8
Recreational Resources and Natural Features	15	17	13
High Speed Internet Service	13	13	10

Supports and Barriers to Economic Growth in Maine

The final section of the survey provided respondents with an opportunity to share their thoughts on the three supports and three barriers to economic growth in Maine. This gave them the opportunity to step back from their specific business issues and reflect on the overall economy. The question was open-ended to allow respondents to provide their personal opinions. It is important to keep in mind that these responses were offered freely by respondents and not asked of each and every person. About one-third of the respondents did not offer answers. The response tallies, therefore, are meant to show strength of the reporting rather than absolute measure of agreement. The findings from this question provide insights into the opinions of business leaders on the general opportunities for growth in Maine. See Figure 6.

Figure 6. Supports and Barriers to Economic Growth in Maine by Percentage of all Responses Provided



This is an open-ended question. The responses are offered by respondents. Topics not asked of every respondent.
Source: Maine Development Foundation/Maine State Chamber of Commerce Web Survey with Business Leaders February 2010, n=1,039.

Similar to the ratings on business impact and priorities for the next governor and legislature, business leaders offered cost-related issues as barriers and quality of place issues as supports to economic growth. Taxes, collectively, are also considered a barrier to economic growth, while loyal/skilled workforce is seen as a general support.

Adverse Business Climate a Recurrent Issue throughout the Survey Responses

Most troubling in the reports of supports and barriers, as well as in the rankings of the other economic issues, is the recurrent theme that regulations and an "anti-business" climate are negatively impacting business success and economic growth in the state. To understand this issue more fully, several survey respondents participated in follow-up interviews to provide more information and clarity.

The follow-up interviews reveal important insights. **A significant divide exists between the business community and the local and state governments**. Some of the divide comes from some of the regulatory hurdles required by state and local governments that are viewed as onerous. Some come from unpredictable approval schedules that can drag on for months if not years. Across the divide are some frustrated businesses that take their anger out on front line government employees simply doing their jobs. Pockets of the business community are simply resistant to any regulation and try to bully their way through the process, leaving an unfavorable impression for those who follow.

The frustration, mistrust and prejudice are felt by all. Advocates and politicians paint business as "bad" and taking advantage of the state and its residents while businesses characterize politicians and government officials as naive and not at all understanding of the importance of having healthy businesses in the state to provide good jobs. Maine's accessible legislative process and "small town feel" have allowed many parties to advocate for their issues but it has also left a charged atmosphere that has put many businesses on the defensive and caused them to retreat from making important investments in the state.

What is clear from the interviews and survey findings is that the business community and the political powers in the state need to find a way to push through these issues and work more collaboratively or Maine will continue to stall on economic growth. The issues identified by businesses as barriers to growth – health-insurance costs, energy costs and state regulations - are complex and will need input, debate and thoughtful dialogue from all parties. The priority for the government and business community should be to find a way to capitalize on "the economy of intimacy" and turn it around from a liability to use it as an asset.

Summary & Conclusion

In February of 2010, Maine Development Foundation and the Maine State Chamber of Commerce conducted a web-based survey with over 1,000 business leaders to understand the business community's thoughts on the key issues impacting growth of the state's economy. The survey, conducted with the help of more than 20 professional and trade organizations that distributed the survey to their members, included responses from 1,039 business leaders from a wide range of business types and from locations across the state.

Survey respondents considered 19 business-related public policy issues and indicated whether the issue positively or negatively impacted their business. Three factors emerged as the most common positive influences or supports for business: 1) high speed internet service, 2) recreational resources and 3) natural features. These three positive factors are followed by "Maine based research and development" and "availability of natural resources for production purposes" as other positive influences.

At the same time, the top three negative influences were clearly identified by business leaders as: 1) the costs of health insurance, 2) energy costs and 3) state regulations. Interestingly, state and local taxes, while strong negative influences, trail the other negatives by a considerable margin.

When asked to set the top three priorities for the state's next governor to address to grow the economy, respondents overwhelmingly selected the very same issues that they expressed were negatively impacting their businesses: 1) reduce health-care costs and health-insurance costs; 2) reduce energy costs; 3) lift the burdens of an unpredictable and unmanageable regulatory veil; 4) address Maine's heavy tax burden. Many believe that Maine's uncompetitive standing with these four factors is a result of a series of public policies that drive up the underlying costs. In addition to the cost factors, Maine's leaders voiced genuine concerns over the adverse impact of an unpredictable and unreasonable regulatory climate that has created an emotionally charged atmosphere, putting many businesses on the defensive and causing them to reconsider making important investments in the state.

What is clear from the survey findings is that the business community and the political powers in the state need to find a way to push through these issues and work more collaboratively or Maine will continue to stall on economic growth. The issues identified by businesses as priorities for change – health-insurance costs, energy costs and state regulations - are complex and will need input, debate and thoughtful dialogue from all parties. The priority for the government and business community should be to find a way to capitalize on "the economy of intimacy" in this small state and turn these issues around from liabilities to assets.

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