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POSSIBILITIES FOR IMPLEMENTING ECONOMIC GARDENING IN THE REPUBLIC OF MACEDONIA

Abstract

Economic gardening (EG) is considered as an entrepreneurial approach to economic development that seeks to grow the local economy from within. Its premise is that local entrepreneurs create the companies that bring new wealth and economic growth to a region in the form of jobs, increased revenues, and a vibrant local business sector. Especially are important the second-stage companies and fast growing companies - gazelles, that are the engine behind job creation and revenue generation, and provides a unique and powerful way to grow economies. Economic gardening targets growth-oriented companies that already operate in communities and helps these businesses succeed by tackling and delivering high-level strategic issues and research services.

Economic gardening helps to establish a strong entrepreneurial culture that is critical to company, industry, and regional and statewide growth. It is not a fast answer, it is a lifetime change.

In the text are presented the concepts of economic gardening with their specificities in USA and Japan. Also, the special observation is given on the situation with business support in the Republic of Macedonia and are analyzed the possibilities for implementing the economic gardening concept on national and local level.

Key words: economic gardening, economic development,
local economy, company growth

JEL classification: R1, L 26

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Introduction

Finding models of economic policies that will enable growth of the regions is permanent challenge of the local and central governments. The economic gardening (EG) is considered as an economic development model that embraces the fundamental idea that entrepreneurs drive economies. The model seeks to create jobs by targeted support for existing companies that are already in a community, to help them grow, by assisting them with strategic issues and providing them with customized research. Main belief of the concept is that the small local entrepreneurial firms would be the engine for the creation of sustainable wealth and new jobs, and the role of the local government and city was to provide a nurturing environment within which these small firms could flourish. The success of this model depends and requires increasing innovation and adaptation from businesses and community leaders.

This concept was implemented in USA, Japan and Australia. Also other countries might implement some forms of EG, but they are differently named.

1. THE CONCEPT OF ECONOMIC GARDENING

The economic gardening is in wider sense an innovative, entrepreneur-centered approach to economic development and is often referred to as a “grow from within” strategy. Key pillar is a comprehensive technical assistance provided by a team of national experts that can lead company to new heights. In contrast to traditional business assistance, EG focuses on strategic growth challenges, such as developing new markets, refining business models and gaining access to competitive intelligence. It is about leveraging research using sophisticated business intelligence tools and databases that growth companies either aren’t aware of or cannot afford.

Special importance is given on the role of the local experts and local government support. The EG teams work hand-in-hand to not just identify issues facing the client company, but to also implement and work through a solution. In contrast to a “data dump” consultants might provide, the EG teams spend a great amount of time explaining the purpose and application of the information provided.

The target group of companies for support is so-called second stage companies – growth-oriented businesses with external market potential that have moved beyond the startup stage. Typically, second stage companies employ 10-99 people.

1.1. Economic gardening in USA

The concept of EG traces its roots back to 1987 in Littleton, Colorado, when the state was in a recession and missile manufacturer Martin Marietta (now Lockheed Martin) left town, which resulted in 7.500 lost jobs and 1 million square feet of vacant real estate (industrial and office space). That year, the city council directed its economic team to figure out how to not just fill the hole but to make sure Littleton was never that vulnerable again.¹

In response, Chris Gibbons, Littleton’s director of business and industry affairs, began to implement his version of EG, working with local companies to create new jobs in lieu of recruiting, incentives or tax rebates. It initially was based on the developed research by MIT’s David Birch, who suggested that most new jobs in any local economy were produced by the community’s small, local businesses. That theory was that so-called Stage 2 companies, employing between 10 and 100 people and with annual revenue of at least \$1 million, create the best kind of jobs that will improve an economy. As opposed to small shops that create mostly minimum wage jobs, these mid-sized companies were growing the middle class workforce. The thinking was that if such companies had the proper push they could drive a local economy upward.

In Littleton, city leaders observed that only 3 to 5 percent of all companies were “high growth” but determined that those “gazelles” were creating the great majority of new jobs. Over the next two decades, Littleton put a moratorium on recruiting, incentives and tax rebates. Replacing these traditional economic-development tools, Gibbons implemented his concept of Economic Gardening, and Littleton more than doubled jobs (at a time when its population only increased by 23 percent) and tripled sales tax revenue.

To help other communities adopt his approach, Gibbons founded the National Center for Economic Gardening (NCEG) and partnered with the Edward Lowe Foundation in 2010 to host the center. Since then NCEG has helped establish EG programs in more than 25 states, including Kansas,

¹ <http://www.kauffman.org/what-we-do/resources/policy/economic-gardening>

Florida, and Michigan. Major states like California regularly include EG discussions in their state economic development conferences and cities including Oakland and Berkeley also have EG projects.²

NCEG delivers strategic information through its National Strategic Research Team, a cadre of certified experts in various disciplines. The foundation has developed a proprietary software system, which enables host organizations, CEOs and the research team to communicate virtually through a secure portal. NCEG also trains and certifies program administrators, team leaders and research specialists.

Research specialists typically assist in five key areas: core strategy, market dynamics, qualified sales leads, innovation and temperament, using sophisticated corporate level tools such as – commercial databases, geographic information system, search engine optimization and web marketing.

Usually the support is based on specially designed program focusing on strategic growth challenges through lectures in:³

- Market research - Identify market trends, potential competitors, unknown resources and new market development,
- Refining business model - refine core strategy and assisting with strategic issues for sustainable competitive advantage.
- Access to competitor intelligence - Track websites, blogs and online communities to better understand competitors as well as current and potential customers.
- Search engine optimization Raise visibility in search engine results and increase web traffic
- Map geographic areas for targeted marketing using Geographic Information System Mapping and Optimization
- Web marketing tools.

For example the Illawara EG program is 6 months program, with 20-30 participants. The concept is based on a Business bootcamp as intensive workshops on management strategy, workshops on management skill improvements by digital strategy, staff motivation, finance/accounting education, CRM, as well coaching for limited participants only.⁴

² <https://www.nationalcenterereg.org/>

³ <http://edwardlowe.org/>

⁴ <http://www.kauffman.org/what-we-do/resources/policy/economic-gardening>

The Littleton EG initiative provides local entrepreneurs with access to competitive intelligence on markets, customers, and competitors that is comparable to the resources customarily only available to large firms. Included in the market information category are database and data mining resources, and geographic information systems.

Louisiana Economic Development's EG Initiative provides Louisiana-based small businesses with the information they need to grow and succeed. Through accelerated technical assistance and research, an experienced EG team provides customized services tailored to the company's business needs, including:⁵

- Review of core strategies, including threats and opportunities, business strategy and niche markets.
- Business development opportunities through market research and qualified sales leads.
- Improved internet presence by increasing company's visibility and credibility within the market, and advice on how to best use technology to connect with customers.

The length of time is usually determined by factors such as complexity of the issues, availability of relevant research information and CEO involvement and availability.

Economic gardening programs varies in different regions and countries because they cannot succeed without a clear understanding and commitment to meeting the needs of entrepreneurs—specifically, identifying and meeting the needs of growth-oriented entrepreneurs that generate a majority of the net new jobs and associated wealth at the core of any effective growth strategy. Through accelerated technical assistance and research, an experienced national EG team provides customized services tailored to meet individual business needs. Following an initial team call where the CEO outlines their current strategy and needs, the National Strategic Research Team begins to provide research reports, recommendations and data lists for the company to implement within its growth strategy. Entrepreneurs know more for their companies than everyone else, so the experts simply give a better view of the big picture in order to make necessary adjustments to perform better and grow larger.

⁵ <https://www.opportunitylouisiana.com/small-business/special-programs-for-small-business/economic-gardening-initiative>

Economic gardening can be most effective in regions having sufficient entrepreneurial spirit and culture already in place. Challenges with EG include overcoming a lack of trust in the resources, ‘entrepreneurial culture’ of a community, building awareness about programs, and actually identifying second stage companies. These challenges are common with many government-led business assistance programs. Working with trusted partners, like the chambers of commerce and universities, can help overcome some of these barriers.

1.2. Economic gardening in Japan

Economic gardening is considered as an approach to enliven local economies in Japan. The actual problems are shrinking cities due to imposed shrinkage (political, spatial and administrative reforms, or depletion of natural resources), comparative disadvantages (loss of competitiveness in industries) or societal and global challenges (climate change, prourban lifestyle). To revitalize shrinking cities it is necessary to create more jobs, to increase the household income and this can be done only by nurturing local SMEs and creating business-friendly ecosystem through well-designed policy intervention.

The reality in local economies is that there is a dual structure – on one side global large companies and on the other side are SMEs as local subcontractors. The challenges are limited innovation capacity by SMEs, low labor mobility and ageing workers and CEO. Traditional approaches for supporting SMEs, such as providing subsidies or low-interest loans, were not always effective in shrinking cities. The reality requires new approach for support SMEs, based on networked development approach, complementary leadership and intelligence. This encompasses business network analysis, market information analysis, match making through key persons, strategic management. The role of public sector in economic gardening is providing information, infrastructure, and connections.

Economic gardening in Japan was realized in Osaka Prefecture. It started in 2014, focusing on existing companies. It was hands on services for manufacturers with strong collaboration of the municipal governments.⁶

In Osaka Prefecture, support functions for small and medium-sized manufacturing enterprises (SMEs) have been consolidated at two major

⁶ <http://www.m-osaka.com/en/>

bases. One of them is the Technology Research Institute of Osaka Prefecture (Izumi City), which offers comprehensive support related to technology, and the other is the Monozukuri Business Information Center Osaka (MOBIO), which is located in Higashi-Osaka City. “Monozukuri” is a Japanese word, which refers to manufacturing.

MOBIO offers every kind of support other than technical support, its main mission is “business matching.” In short, it sets up opportunities for SMEs and people belonging to other areas to meet. Its main duty is to create scenarios where manufacturers, universities, foreign companies, professionals such as patent attorneys and lawyers, and creators and designers can meet.

MOBIO aim is to establish an environment in which SMEs can boost their innovative capabilities and undertake challenges. That being said, many companies state, “We have no idea what to specifically carry out.” It is important to provide proper support with knowledge of such information and to disseminate the knowledge gained through experience to newly arriving companies. Thus, they make plans to implement various approaches under the motto “To know, to do, to gather,” and are continually working on these plans.⁷

Other case of EG in Japan is the project realized by Tohoku University and Miyagi prefecture, by creating Regional Innovation Producers School and Regional Innovation Advisors School, that were matched in a joint The courses covered the following topics – innovation and design, innovation strategy, strategic management, marketing, project design, branding strategy, management of human resources and organization, as well creating and analyzing case studies.⁸

The key benefits from these programs that are realized since 2012 are increased sales, profit and employment in the regions and above all beneficial learning in design thinking, thinking as business management, local thinking.

Leydesdorff and Etzkowitz (1997) introduced the concept of a “triple helix” of university-industry-government relations as a new strategic framework for innovation. The triple helix model provides a mechanism of endogenous economic development, where sources and propellant of innovation come from inside of the economic ecosystem. For the case of

⁷ <http://kenplatz.nikkeibp.co.jp/article/otagaien/news/20130911/631710/>

⁸ Yamamoto Takashi PhD, Takushoku University, Tokyo, Japan, Lectures Outline of Economic Gardening: “Economic Gardening” for Local Economic Circulation, from the JICA Seminar Knowledge Co-Creation Program: Industrial Development and Promotion Utilizing Local Resources, July-Aug. 2017

Tohoku University and Miyagi Prefecture, more appropriate is a concept of “quadruple helix”, focusing on the relationship among university, industry, government, and regional banks. Banks are added as a separate actor because the role of local financial institutions is different from that of other industry actors, and it should be highlighted as an independent entity.⁹

Other example of economic gardening in Japan is from Sakai city. There is community that enables wide support of businesses according to growth stages, from seedbed preparation for start ups, to establishment of new business facilities. The support is enabled by few institutions S-Cube (Sakai Business Incubation Center – business incubation, seminars, individual support by management consultant), Sakai Industrial promotion Center (Management assistance, business matching, expert dispatch, etc.), Support organization for management innovation (consultation services, seminars, etc.), as well support measures coordinated by local government, university of Kansai, chamber of commerce, national and regional financial institutions, and wide area of support organizations.

According Japanese understanding key factors for success of this so called endogenous development philosophy or networked development or economic gardening are favorable habitat and devoted key persons, focusing on promising businesses (owners portray a genuine interest in being helped, growing firms, management values innovation and new ideas, etc), cooperation among business, academics and government.

This example of economic gardening focuses on active role of the city in supporting companies through whole life cycle.

2. ECONOMIC GARDENING AS A CONCEPT FOR BUSINESS SUPPORT IN THE REPUBLIC OF MACEDONIA

The Republic of Macedonia considers SME development, competitiveness and growth as one of the highest strategic priorities. It has developed a centralized system for support of companies that is led by the government ministries and few agencies. All programs and measures are designed and implemented mostly on a central level. Local business support infrastructure is fragmented and not strongly supported. Especially the business

⁹ Leydesdorff L. and Etzkowitz H. (1997). A Triple Helix of University–Industry–Government Relations. Etzkowitz H. and Leydesdorff L. (eds), *Universities and the Global Knowledge Economy* (pp.155-162). London: Pinter.

support on the city level is minor. As other countries, Macedonia faces with the challenges like brain drain and migration to the capital city, that leads to shrinking the cities from inside the country.

With the latest initiatives for creation of Technological Industrial and Development Zones, focused on attracting FDI, a lot of new jobs were created in the cities within the country. Foreign companies were attracted mostly in the free economic zones by the promotive incentive package as well as low costs for labour. There is a threat that they will stay in the community as long as incentives are received and costs stay low. As salaries and costs began to rise, as well incentives are canceled after defined period there, is a threat that they would again look elsewhere for low costs.

This emphasizes the importance for the growth to be based not only on FDI, but mostly it should be based on the development of endogenous industry and local SMEs with potential for growth.

One of the challenges is how to identify a model for enhancing the endogenous, local industry, utilizing local capacities and resources.

SMEs in Macedonia represent 99,5% of the country business entities and are primary source for creating the economic dynamism of the country. They account for almost two thirds of total value added and nearly three quarters of all jobs. The data on the structure of active business entities by regions show that the highest share of 37.5% belongs to the Skopje Region.¹⁰

The data on the structure of active business entities by sections of activities show that the highest share in 2016 belongs to Wholesale and retail trade; repair of motor vehicles with 33.2% and Manufacturing with 11.1%.¹¹

From the point of view of active business entities according to the number of persons employed the highest share of 79.3% belongs to business entities with 1-9 persons employed. Only 5% of the total number of active companies are exporting abroad (3.362 companies). Five of them are creating 40% of the export, and top 100 create more than 80% of the export.¹²

¹⁰ State Statistical Office of RM, Regional Yearbook, Regions of the Republic of Macedonia ISSN 1857-6141, www.stat.gov.mk

¹¹ State Statistical Office of RM, News Release, No: 6.1.17.22, issued 23.03.2017 "Number of active business entities 2016", www.stat.gov.mk

¹² State Statistical Office of RM, News Release No: 7.1.17.08, issued 09.06.2017, External trade by enterprise characteristics, 2015, www.stat.gov.mk

The level of innovativeness of Macedonian companies is low.¹³

Companies in many cases as obstacles for growth are identifying: the access to finance, lack of adequate skills, lack of capital, lack of innovation infrastructure, weak cooperation between universities and the private sector, low productivity, frequent changes in the laws, dependence on imported raw materials, underdeveloped clusters etc.

An important structural problem is the lack of cooperation between scientific and educational institutions and industry, as well lack of networking and clustering.

Matching the data for 2016 for active companies in manufacturing industry and size of companies (from 10-99 employees), we can estimate that the target group for economic gardening support is around 1.200 companies, mostly located in Skopje. This number is much smaller if the financial results and potentials for growth, innovation, and export orientation are analyzed on company level. The concept of EG should focus on fast growing companies support, because they are eager to learn and improve their strategic issues and concepts in order to be better and more successful.

Comparing the logic of the EG concept, implemented in USA and Japan, for realization of the EG in the Republic of Macedonia, we have to analyze many aspects and precondition for success that covers the mentality, entrepreneurial spirit and culture, leadership, vision for growth, networking, skills and expertise available, institutional network etc. Because EG means delivering targeted support with strategic growth challenges by research specialists, the delivery of this highly specialized support, due to lack of adequate business support institutions, should come first from universities and institutes that are active on local level.

Universities can create and implement curricula for such program, by creating the research teams and pool of experts that will work with companies. Their expertise and specializations for strategic issues might be easily upgraded following the selected support concept and providing needed tools and databases. By networking the experts from universities as teams, can be delivered the set of specialized and comprehensive business support to the selected companies.

¹³ CEFTA Investment Report 2017, Prepared by the Vienna Institute for International studies, The European Union and CEFTA, April 2017, CEFTA Ref. CPF III 2016-10

Companies should spend set of hours in collaboration with the research team. The team should spend additional time behind the scenes working on company's issues. As potential issues are usually identifying and prioritizing sales leads and business opportunities, core strategy and business model, using social media to connect with customers etc. This shows that universities with their experts should be highly involved in the concept, which will be financially supported by government and local funds. Very important for success is increased awareness of the leadership from local self government, for their role and importance in creating and supporting the local businesses.

Economic gardening in Macedonia should show the benefits of networking, collaboration, information dissemination, following best practices and using tools for enterprise growth. It can show in practice how the government, business and universities can collaborate for the interest of the business community and growth, following the characteristics and needs of the local business and local tradition. Finally companies are key players on the market and creators of competitiveness of the economy.

In order to have a success of the project, it should be proposed as a long term measure, carefully designed and realized. Companies must see the difference in the quality of the lecturers for state-of-the art business practices by support given by high trained professionals.

Republic of Macedonia as a small economy with limited capacities must use all potentials very efficiently; focusing on human capital as a backbone for developing competitiveness and creating innovative economy. Strengthening the links and collaboration between universities and business is necessary in order to enable growth. Also, it is important to improve information dissemination and skills in companies, enable better access to finance. There is no place for doubt, collaboration and cooperation is our only future.

In order the EG to be created in Macedonia, first we have to prepare the soil – promote the concept and their benefits, identify key persons in the community that will support the idea and gain the support of local officials and other stakeholders, develop a functional network, identify and train the local experts (people from universities or individuals in the community who have skills and expertise in areas such as business coaching and mentoring, finance, employment/workforce development, research, marketing, meeting facilitation, organizing/managing projects, public speaking, legal support, fund raising etc.), provide finances on local level for implementing the concept, create local rules that support business development and implement the concept.

Conclusion

Finding models of economic policies that will enable growth of the regions is permanent challenge of the local and central governments. Economic gardening can be considered as an economic development model for supporting local and regional development based on endogenous growth. As a concept it was implemented in Japan and USA.

The model is based on delivering targeted support for existing companies that are already in a community, to help them grow, by assisting them with strategic issues and providing them with customized research. Main belief of the concept is that the small local entrepreneurial firms would be the engine for the creation of sustainable wealth and new jobs, and the role of the local government and city was to provide a nurturing environment within which these small firms could flourish. The success of this model depends and requires increasing innovation and adaptation from businesses and community leaders.

In USA the key role in implementing EG is given to the National Center of Economic Gardening and their certified experts as a private institution. They are organizing the programs within the states, focusing on local specificities and needs, by enabling better information and intelligence capacity of the companies. The local governments are financing the projects, because they consider this as an investment in sustainable and local growth.

In Japanese economic gardening concept, the active role is given to the public sector, institutions and organizations on local level. In Japan a local governments have tradition in developing extensive system for business support, and they are real partners with the business, universities, chambers and other local institutions often financed by the local government. They are networked and communicate efficiently in order to support the business. Their motto is “To know, to do, to gather”. The result is sustainable local development, based on strong domestic companies, utilizing different concepts due to different preconditions like: culture, mentality and tradition.

In The Republic of Macedonia, as a small economy, of extreme importance is implementing different models for support of regional and local development. Actually, supporting every promising company on local level.

Economic gardening in The Republic of Macedonia can be implemented by engagement of local players (local government, chambers, universities, institutions), by utilizing the capacities of universities and experts on local level

for delivering a special and comprehensive support to the local businesses. This will build trust, increase effectiveness and strengthen the entrepreneurial culture. The final outcome is “changing the culture of entrepreneurship in the region” and local growth.

Economic gardening offers a lot of benefits for the host, it offers a new way of thinking about supporting growth companies and letting business owners know how important they are to local economies.

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