

Second, this approach was designed to facilitate devolving R&D activity from head offices to Irish subsidiaries of the FDI companies. The government's various research funding initiatives, particularly Science Foundation Ireland, made it a key priority to underwrite new Centres for Science, Engineering and Technology (CSETs) as joint activities of FDI companies and higher education institutions. Examples at the National University of Ireland, Galway, include the Digital Enterprise Research Institute (DERI) led by Hewlett-Packard which investigates the next generation of web technology – the 'semantic web' – and the Regenerative Medicine Institute (REMEDI), led by Medtronic, whose agenda is to pioneer applications of stem cell research. These centres of excellence, following the model of the US National Science Foundation, had as their core mission to identify research leaders in the field internationally and recruit them to work in Ireland.

Third, Ireland's policy approach also encouraged FDI subsidiaries to provide a springboard for local firms in cluster relationships looking to enter global markets and supply chains both in association with the FDI companies themselves and in their own right. Again, Enterprise

Ireland played a part, not by trying to substitute for the market but by taking best advantage of local capabilities through the funding of 'innovation partnerships' and the development of 'industry-led networks', which linked SMEs to the new opportunities opened up by the deepening presence and activities of FDI companies. The approach is pragmatic and evidence-based and builds on a national consensus around knowledge and ingenuity as a key source of competitive advantage.

The potential relevance of this approach to Australia's current and emerging areas of competitive advantage should be apparent. It was highlighted in the Business Council of Australia's 2006 report, *New Pathways to Prosperity: A National Innovation Framework for Australia*, whose key policy recommendations have largely been endorsed by the Rudd Labor government. For example, if we look at the rapidly growing technology corridor in northern Sydney, with Macquarie University at its hub, we need only ask where are the linkages and relationships that would add value to this concentration of leading international companies and their local supply chains and would consequently drive the competitiveness and capability

## Economic gardening

Budding entrepreneurs become blooming successes, write *Jane Robinson* and *John Grace*.

Imagine you were given the challenge of creating an innovative strategy to grow a small regional economy. Where would you begin?

The problems facing economic development practitioners in regional Australia vary enormously from region to region and so do the potential pathways to economic growth. Some local government areas (LGAs) are blessed with large tracts of cheap land located in nationally recognised growth corridors. For practitioners in these areas, the choice is an obvious one – adopt business attraction as the core strategy.

But what are the options for practitioners in areas where there is no cheap land, or very little industrial land available at any price, and don't possess those natural attributes that attract big city businesses?

In these situations, business attraction activities can be a case of 'flogging a dead horse' and run the risk of being a cannibalistic exercise. It sets local councils up in competition with each other, facing off in a kind of mating ritual with a handful of 'footloose' companies.

To make matters worse, most local economic development practitioners have access to very limited resources with which to create their strategies. They don't operate the macro-economic levers that influence the direction of the economy. Nor do they control the planning instruments that determine the physical structure of their industrial and commercial environments.

### SHELLHARBOUR CITY NSW – A CASE STUDY

For many decades, Shellharbour has supplied labour to the steel and coal industries based in the Wollongong LGA. In recent years, Shellharbour has been designated as a population growth centre. At only 154 square kilometres, Shellharbour City is geographically small but home to 62,000 people, a figure that is expected to reach 75,000 by 2020. Shellharbour also has a low workforce self-containment rate, with more than 60 per cent of its resident workforce commuting outside the LGA to work.

of the embryonic cluster – in other words, enabling the whole to become more than the sum of its parts.

To conclude, there is increasing recognition throughout the world, reflected most comprehensively in the OECD's national innovation systems program that, "networks of innovation are the rule rather than the exception ... To successfully innovate, companies are becoming more dependent on complementary knowledge and know-how in companies and institutions other than their own". The European Union, as well as member states such as Ireland, promotes clusters as "regional innovation systems" and has shifted the policy focus to building not only innovation but also networking capability in firms and organisations. This may well become a feature of the Rudd government's proposed Enterprise Connect program, to be implemented by the new, significantly re-titled Department of Innovation, Industry, Science and Research.

It became evident in Ireland, however, that the practice of clustering there conflicted with the theory, which in Michael Porter's standard version envisaged a number of preconditions, including a role for national champions in competition for market share.

The Irish government's National Economic and Social Council (NESC) concluded from its own extensive research that if this standard theory applied, Ireland as a small regional economy would have no clusters and no possibility of establishing any in the future.

What this suggested to Irish policymakers is that the theory itself was deficient in that it was based on US experience which had not captured the significance of 'agglomeration effects' in a small economy and the key role of FDI companies in leading 'boundaryless clusters'. The unique but transferable feature of Ireland's cluster activity is that it is global as well as local, unbounded and open as well as bounded by geography and adept at deploying 'spikiness' in a flat world. The challenge in Australia is also to understand what can be done, adapting the theory to the extent required for effective action, and to do it.

**Professor Roy Green** is Dean of the Macquarie Graduate School of Management and heads the Federal Government's recently announced review of the Textiles, Clothing and Footwear sector. Previously he was Dean of Commerce at the National University of Ireland, Galway, and a member of Enterprise Ireland's Research Funding Support Board.

**Growing small businesses**  
Why is it so important for regional economies to have strong and growing small business sectors?

**Here's why**  
The small business sector has a total capitalised worth of \$4.3 trillion; four times that of the Australian stock exchange.

The City is heavily reliant on small business to provide local jobs and the majority of businesses operate in the retail, wholesale, hospitality and service industries. The narrow industrial base tends to limit jobs growth as well as the range of jobs for local residents.

These were the challenges that two partner organisations, the Illawarra Area Consultative Committee (IACC) and Shellharbour City Council, were seeking to address in 2004. It seemed logical that an endogenous growth strategy such as 'business retention and expansion' (BR&E) was an essential component of an economic development plan for Shellharbour. But which specific type of BR&E strategy would best suit Shellharbour?

#### **ECONOMIC GARDENING**

Illawarra ACC identified a promising strategy that had originated in Littleton, Colorado, in 1987 called 'Economic Gardening'.

The appeal of Economic Gardening is the way it seems to fit the circumstances of Shellharbour City. Economic Gardening does not rely on business attraction but focuses strongly on encouraging the successful expansion of local businesses. It assists

potential high-growth businesses to expand, rather than helping struggling businesses simply to survive. The project partners had witnessed the failure of some high-profile business relocations in the Illawarra region and decided that the concept of growing the economy 'from within' was a more sustainable alternative.

Rather than just overlaying a US strategy on local conditions, the project team kept the core Economic Gardening principles and redesigned methods to suit the local resources and business environment. Kiama Council, the LGA south of Shellharbour, became a partner in the project. The University of Wollongong is evaluating the project methodology.

#### **A PRACTICAL AUSTRALIAN VERSION**

The Economic Gardening pilot project began in November 2006 and by November 2007, sampling >>

And finally  
There are now  
more than 1.8  
million small  
businesses in  
Australia.

In addition  
Prime Minister Rudd  
recently said that “small  
business is the backbone  
of the Australian  
economy”. It cannot be  
underestimated as a  
driver of growth in any  
regional economy.

Plus  
Small business  
employs around  
3.6 million people  
or 47 per cent of  
private sector,  
non-agricultural  
employment.

Don't forget  
Around 30 per  
cent of Australia's  
economic activity  
is generated by  
small business.

of participating  
businesses showed that,  
on average, each business  
had grown sufficiently to  
hire another 1.6 workers.  
Survey feedback indicates  
that a majority of businesses are

now undergoing planned expansion  
and that in most cases this is attributed to their  
involvement in the Economic Gardening project. By  
March 2008 more than 100 businesses will have been  
actively engaged.

Key attributes of the Shellharbour City project:

- Creation of strong networks within the small business community
- Identification of business operators who have an interest in, and potential to, expand their businesses
- Active engagement of these business operators in the challenge of growth
- Establishment of positive relationships and open communication channels between councils and the small business community
- Effective delivery of a package of information and services focused on business growth
- Learning experiences facilitated by successful business people rather than institutions
- Follow-up facilitation and coaching to encourage adoption of sound business-growth practices.

Each intake of businesses starts with a 'Business Boot Camp', an intensive one-day workshop which centres on a business simulation exercise. Participation is closely observed by the project team. Participants, away from their day-to-day operations, have time to

analyse their business and their own behaviours in relation to their business. They are then offered a financial 'health check' from an external consultant.

The Boot Camp is followed by a series of 'business growth workshops' focusing on practical aspects of generating business growth as well as managing fast-growing businesses. Businesses identified by the project management team are offered one-on-one coaching to ensure the business owner is best able to implement the strategies presented in the workshops.

The program has funds available for the purchase of direct marketing lists for specific businesses identified as having a target market beyond the local region. The program also has the capacity to purchase marketing materials for businesses seeking to grow their business via a structured marketing campaign.

#### THE ROLE OF ENTREPRENEURS

The Economic Gardening strategy places a strong emphasis on the need to harness the attributes of small business entrepreneurs.

Arguably, the Illawarra region does not have a strong culture of individual entrepreneurship. Its history is dominated by a 'company town' culture (BHP ran steel operations in Wollongong). The Economic Gardening partners wanted to play a role in helping to create an environment where budding entrepreneurs are encouraged to innovate and to grow their businesses. The 'Illawarra Entrepreneurs' web-portal has recently been launched as part of the project [www.economicgardening.com.au](http://www.economicgardening.com.au).

Can local economic development practitioners have a positive influence on entrepreneurial activity? There isn't a conclusive answer to this question yet. It is not the proposition of this article that the Economic Gardening strategy is the panacea to every region's economic development problems. However, it seems to be proving effective in Shellharbour and Kiama, even after only 15 months in practice.

Jane Robinson is the Economic Development Manager for Shellharbour City Council.

John Grace is Executive Officer of Illawarra Area Consultative Committee.