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July 20, 2010

Dear Reader,

We are all aware of the current state of Michigan's economic climate. For years, we have been dependent on a few very large companies to provide the majority of jobs to workers in our state. When those companies experienced hard times, the bottom fell out of our economy. Today, we are in a unique position in our state's history; we are in the position now to choose the economic development strategy most likely to strengthen our faltering economy and provide great jobs to the people of Michigan. We at the Small Business Association of Michigan are dedicated to leading the way in this effort to improve our state.

This paper, "Propelling a New Economic Direction for Michigan," outlines the approach that I, along with others, believe will be successful in rebuilding our economy. While we see Michigan's current economic development strategy as an important part of the future, we believe it is time for a significant shift in emphasis, one that adds another critical dimension to it. This approach would temper the public sector's traditional role of seeking out industry and business from outside the state to come to Michigan via tax credits and incentives. Furthermore, it would add a new role of cultivating the state's environment to welcome and nurture small, high-growth businesses that are proven to be the true job-makers. This cutting-edge approach, which is being tested in a few areas around the country, is known as "economic gardening."

We appreciate the financial support for the research that has made this paper possible. Without the steadfast partnerships from the Edward Lowe Foundation, the Michigan Economic Development Corporation, and the Small Business Foundation of Michigan, the paper could not exist.

The paper in front of you is only a starting point. In addition to presenting a research-based strategy for Michigan's economic future, it also poses a number of questions for your consideration. The answers to these questions and the feedback you provide to me will inform the next phase of this research, which will be shared with the new administration after the November general election. Please call me at (800) 362-5461 or e-mail me at robert.fowler@sbam.org to share your thoughts and responses to this paper. I look forward to working with you on this important project for Michigan's economic future.

Sincerely,

Robert D. Fowler



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This paper was prepared for and in collaboration with the leadership of the Small Business Association of Michigan. It is based on original and secondary research by Public Policy Associates, Inc. (PPA) and on the experience of the principals in small business policy and entrepreneurship over the past 25 years.

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Introduction and Background

Throughout the first decade of the new millennium, Michigan has experienced an unprecedented economic decline. After a century of prosperity centered around automobile manufacturing, the domestic auto industry collapsed and with it Michigan's economic core. Efforts were undertaken throughout the decade to revive that industry, but no credible observers believe that the auto industry in Michigan will regain its peak level of employment. Nevertheless, specific tax breaks and a whole new business tax structure were aimed in that direction.¹ Efforts to attract or even retain manufacturing firms consistently failed to achieve the hoped-for levels of success. A recent analysis of tax credits issued by the Michigan Economic Growth Authority (MEGA) shows that, on average, only 294 jobs were created of each 1,000 jobs expected.² Most would agree, however, that the MEGA process, which does not pay tax credits until jobs are actually created, avoids many of the pitfalls of programs in other states. In fact, a detailed estimate by the W.E. Upjohn Institute for Employment Research shows that, while MEGA is modest in scale, it is a cost-effective means of using tax credits to stimulate job creation and has resulted in net job creation.³ Clearly, though, these efforts to stimulate economic growth through tax credits have been less successful than hoped.

While its objectives are laudable and well-intentioned, the Michigan Economic Development Corporation (MEDC) takes a conventional approach to attracting new companies to Michigan and conducting retention visits with current employers. Those visits, however, serve mostly as an early warning system for companies that may be considering moving out of state or laying off workers. They do not provide companies with the tools to become more competitive or to grow successfully. Thus, the economic development strategy of the State of Michigan has simply not had sufficient power to cope with the transition from the economy of the past to the economy of the future.

¹ Timothy J. Bartik and George Erickcek, "The Employment and Fiscal Effects of Michigan's MEGA Tax Credit Program," W.E. Upjohn Institute for Employment Research (April 2010). <<http://www.upjohninst.org/publications/wp/10-164.pdf>>. Based on MEDC data, the authors report that, "Over the life of the program, about 49 percent of the credits have been in the motor vehicle and motor-vehicle-parts industries, and 31 percent in other manufacturing industries." p7.

² Michael D. LaFaive and James M. Hohman, "The Michigan Economic Development Corporation: A Review and Analysis" (August 31, 2009). <<http://www.mackinac.org/10933>>

³ Bartik and Erickcek, "The Employment and Fiscal Effects of Michigan's MEGA Tax Credit Program," W.E. Upjohn Institute for Employment Research (April 2010).

Another vestige of our century of auto-related success is that Michigan no longer has a strong culture of entrepreneurship. Those who open a business are often seen not as economic pioneers but as outsiders unable to succeed in the corporate world.

The core of this new direction for economic development in Michigan is a shift from hunting to gardening.

Clearly, the time has come for the government and people of Michigan to embrace a new direction for economic development. While some of the old approaches may merit retention, we suggest here that new strategies and tools—based on a new understanding of economic reality—must be added to Michigan’s economic development portfolio.

The core of this change is a shift from hunting for new businesses to economic gardening. In economic development, as in the animal kingdom, hunting involves stalking individual prey and making a kill. It means trying to recruit or retain large companies that could choose to locate elsewhere. The tools used to “make the kill” have, as noted above, become less successful; our spears have become dull, our arrows are broken. Economic gardening, by contrast, entails cultivating and nurturing local growth-oriented companies that can yield a harvest of new jobs.

As Small Business Association of Michigan Chair Cynthia Kay put it, “Economic gardening means growing our own small businesses in Michigan from the ground up It’s important because most job growth comes from our own small businesses, not big businesses—neither the ones that we have here in the state nor the ones that are lured to locate here by expensive tax breaks.”⁴

Over the past 15 years, employment in large, mature companies in Michigan has declined while employment in smaller, younger companies has grown. By looking at net change in employment separately for companies within Michigan and those that moved in or out, a more vivid picture emerges. Michigan firms with more than 500 employees had a net loss of nearly 388,000 jobs through expansions and contractions. Michigan’s economic hunting strategy did not fare well, either: 16,000 jobs were gained from firms that moved in, but 21,000 were lost through those that moved out.⁵ Small businesses have for decades been seen as a major engine for economic

⁴ Cynthia Kay (SBAM Chair), comment made at SBAM’s Annual Meeting & Networking Luncheon, Kellogg Hotel & Conference Center, June 24, 2010.

⁵ Edward Lowe Foundation (2010). <<http://youreconomy.org/>>

growth; during some periods, such businesses have been cited as accounting for all net job growth in the state.⁶ But economic gardening is not a formula for simply throwing public money at all small businesses. Michigan has, by the most conservative measure, about 230,000 small businesses, and a subset of them account for a large share of job growth; in fact, between 2001 and 2008, most reported either no change or declines in employment.⁷ According to Dane Stangler of the Kauffman Foundation, “Buried within the universe of companies are those firms that occasionally break away from the pack and create an extraordinary number of jobs Just 1 percent of companies . . . generate 40 percent of jobs in any given year.”⁸ Most of the one percent, he points out, start out small and young. Michigan data are consistent with this analysis.

It is clear that not all small companies grow. Many business owners are content with a steady-state business model, once their company is able to provide a reliable and adequate income. Others operate businesses in local markets, such as independent dry cleaners or restaurants, that do not support larger enterprises.

The Kauffman analysis makes it clear that the real engine of successful economies is high-growth firms. A community that can increase the number of such firms is far more likely to prosper than one that focuses solely on chasing the next smokestack. For Littleton, Colorado, this led to an epiphany: what matters is small companies that will become larger. Says Christian Gibbons, Director of Business/Industry Affairs for Littleton, “. . .[W]e got out of the small versus large debate. The real issue was about rate of growth.” Since the number of firms that truly drive growth is small, cultivating and nurturing them is far more feasible than attempting to aid every small company. Since this notion runs counter to decades of conventional wisdom and popular economic mythology, it is obvious that public policies aimed at economic development through the cultivation of small business must change, too.

The Kauffman analysis makes it clear that the real engine of successful economies is high growth firms.

Thus, this paper articulates an approach that is considerably different from past efforts in that it:

⁶ Dane Stangler and Robert E. Litan, “Where Will the Jobs Come From?,” Kauffman Foundation (November 2009). <http://www.kauffman.org/uploadedFiles/where_will_the_jobs_come_from.pdf>

⁷ Public Policy Associates, Inc., “Small Business Barometer 2008-IV Wave 58: Final Report” (December 2008).

⁸ Stangler, Dane, “High-Growth Firms and the Future of the American Economy,” Ewing Marion Kauffman Foundation (2010), 5.

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- Builds on the experiences and insights of experts across the nation who are working at the cutting edge of public-sector business development policies and practices.
 - Relies more on providing knowledge and expertise to companies and less on providing tax dollars.
 - Focuses on small companies that intend to grow.
 - Emphasizes a market-based role for the public sector, rather than one that focuses principally on providing services.
 - Assumes that business owners are smart enough to decide which services are likely to have value to them and that they are willing to pay for services that have value.⁹

The public expects the State of Michigan to provide help to business owners and to those considering launching a business, but it is short on understanding what to do or how to do it. Often, it is suggested that, while providing support, “government should not pick winners and losers,” which implies that all comers should be treated equally. For small businesses, this might mean that all would receive the same level of support or that none would receive any help at all. The numbers, though, make the former impossible and political reality rules out the latter.

There are currently over 230,000 business establishments in Michigan that have between 1 and 99 employees.¹⁰ In addition, there are about 640,000 self-employed individuals.¹¹ That is a total of 870,000 small businesses. If the government were to provide \$1,000 worth of help (cash, technical assistance, etc.) to each of them, the cost would be \$870 million per year and the return would be negligible. Clearly that is not a feasible strategy; the entire budget of the Michigan Economic Development Corporation is approximately \$212 million.

Given such staggering costs, it is tempting to say that government should simply exit the economic development business. This is a view deeply held and actively espoused by the Mackinac Center for Public Policy, an influential conservative think tank in Midland, Michigan. In comments to Crain’s Detroit Business, Michael LaFaive, Director of Fiscal Policy for the Mackinac Center for Public Policy, said, “The MEDC is an expensive bureaucracy and ‘arguably the least necessary entity in state government.’”¹² We do not think that such a *laissez faire*

⁹ While access to capital is widely understood to be an important element of any business development strategy, it is not addressed in this paper. The reason is that many of the tools for improving access to capital are already in place, and they fit equally well with traditional strategies and economic gardening.

¹⁰ U.S. Census Bureau, 2007 County Business Patterns (August 28, 2009).
<http://factfinder.census.gov/servlet/IBQTable?_bm=y&-ds_name=CB0700A2&-geo_id=04000US26&-search_results=01000US&-_lang=en>

¹¹ U.S. Census Bureau, 2008 Nonemployer Statistics (2008).

¹² Amy Lane, “State Debates MEDC’s Value,” Crain’s Detroit Business (May 5, 2003).
<<http://www.craindetroit.com/article/20030505/SUB/305050863>>

approach resonates with either public expectations or the best available economic analysis; there is a need for government to play an active role. Thus, rather than to follow either an all or nothing path, we suggest that the state take a more metered approach.

The public sector currently supports start-up or pre-start-up companies through the Small Business and Technology Development Center network and the United States Small Business Administration. While there are outstanding and important exceptions, most of the companies they support are local-market enterprises that never become significant job creators. Public sector investment in such firms should be limited. As the odds for economic impact improve, however, more public investment of various kinds can be justified.

It may appear that the options for an effective public sector role in supporting economic growth are not promising. We have asserted that: (1) Economic hunting alone is not effective, (2) supporting every small business is not economically feasible and pays only minimal returns, and (3) exiting altogether the economic development business is neither appropriate nor politically feasible. There is, however, a fourth way that capitalizes on the strengths of government while avoiding many of its inherent limitations and weaknesses.

The strategy suggested here is about positioning the public sector to help increase the odds that small firms that intend to grow will to do so successfully. It would build directly on the data that show the importance of high-growth small firms in creating jobs. And, it would not attempt to pick winners and losers, but instead would allow business owners to self-select based on their assessment of the likely value of the services. While the services would be marketed to those small companies that intend to grow, they would not be closed to anyone.

Another important and related element of the strategy is the notion that any public investment in private businesses must be somehow related to the prospect for public benefit. This should, in turn, drive the decision on how the costs of any services would be shared between the public sector and the private users of the services. If a small company uses the services and provides more jobs or grows more quickly than it would have otherwise, it is clear that the public benefits from the availability of more jobs, more tax revenues, and more wealth. Such growth

. . . any public investment in private businesses must be somehow related to the prospect for public benefit.

may also strengthen the overall economy, which can lead to an upward cycle of prosperity. There are also private benefits. The owners of the company will likely earn more income and benefit from owning a more valuable asset. Since both the public and private sectors benefit from the results of the services proposed here, it is sensible that both should invest in them.

In principle, this cost-sharing should be in rough proportion to the public and private benefits. It is difficult, however, to estimate that ratio, since the results will not occur for some time. The path of growth is uncertain under the best of conditions. Some companies will grow more than others, some will provide more valuable jobs, and so forth. In addition, there are other factors that affect the price that business customers would pay. Pricing of public services to businesses must take into account the effect of various price points on the perceived value of the service; if it is underpriced, some prospective customers may believe it is “cheap,” not just inexpensive. Also, in Michigan’s current fiscal environment, the ability of government to invest even in activities likely to have a long-term benefit is limited. In sum, the price should reflect the value

The price of public services to businesses should reflect the value to the public and private sectors, be attractive to prospective customers, and be feasible for government.

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While the evidence for the role of high-growth small firms in economic growth is clear, the link between economic gardening and stimulation of such firms is

not. For that reason, we suggest that the strategic shift described in this paper be thoroughly documented and evaluated to determine its effectiveness. If it has the hoped-for effects, that research will allow the approach to serve as a model for the nation. If not, it will support further decisions regarding how to improve the strategy.

It is very clear, however, that Michigan’s current economic development strategy does not reflect this analysis of how economies grow. The public demands that government “do something,” and the current approach lets public officials say they are. The total investment in that old strategy, however, is not justified by the results. The opportunity to broaden our portfolio of tactics to add the tools of economic gardening will never be more palpable or urgent.

Questions for Consideration:

The section above discusses the current climate in Michigan for business owners and the role that the MEDC and other government agencies have undertaken in economic development. Is it clear from the material that economic gardening is likely to lead to stronger economic growth than traditional approaches?

With such a change, what is the optimal economic development role for state agencies such as the MEDC? Can the MEDC embrace a role that embraces economic gardening and market making? Can it get better leverage on investments of tax dollars by doing so?

Services Valued by Growth-Oriented Business Owners

The continued success of companies that intend to grow is rooted not only in their internal capacity to support that growth, but also in the types and value of services and resources that are available to them. Second-stage business owners who are serious about growing their companies effectively cannot know everything necessary to do so; therefore, many times business leaders must turn toward outside resources and services that will assist in their growth.

In June 2009, Public Policy Associates, Inc. (PPA) completed a study for SBAM about historic and current use of growth resources and the interest in future resources among second-stage businesses in Michigan.¹³ PPA collected data through an online survey and four focus groups with business leaders.

This study asked business leaders to rate the value and usefulness of services and resources to their business. It identified a number of services and resources that were highly valued by those queried. There were two external

resources that the majority of businesses who completed the survey viewed as “very helpful”: having external service providers with which they have an ongoing relationship (i.e., an accountant, lawyer, etc.), and self-directed learning (i.e., Internet research, books, guides, etc.). Focus group participants indicated, for the most part, that they were willing to utilize external

Michigan growth-oriented business leaders value industry-specific, external information that can be learned on a self-directed basis.

¹³ Public Policy Associates, Inc., Second-Stage Business Research Prepared for Small Business Foundation of Michigan (June 2009). That research was funded by the Michigan Economic Development Corporation, the Edward Lowe Foundation, and the Small Business Foundation of Michigan.

resources in the future. They identified a few resources as helpful for their continued growth: a customized market research service, a growth assessment service, and a source for finding top-level talent. Respondents to both the survey and focus groups indicated that the best-suited external resources for their companies, no matter what they were, were those that were seen to be fresh (not pre-packaged), customized services that are stemmed in industry-specific expertise.

Examples of services like those that PPA found to be very useful by Michigan second-stage business leaders have been demonstrated in a few places in other parts of the country. The City of Littleton, Colorado was the birthplace of the economic gardening movement. The City of Littleton provided a number of tools, among other things, to aid in small businesses' growth. These tools included information resources to entrepreneurs in the area to help them grow their businesses, like Geographic Information Systems (GIS) services; databases that can develop marketing lists, industry trends, and answer custom business questions; as well as training and seminars dealing with business, management, and customer strategies.¹⁴ These services appear to gel with resources Michigan second-stage business leaders value: industry-specific, external information that can be learned on a self-directed basis.

Following the City of Littleton's example, the state of Florida, through the University of Central

There are select resources and services that business owners value and consider to positively impact their ability to grow and prosper.

Florida (UCF), has undertaken a similar model of offering services to its second-stage businesses in six regions throughout the state to aid in their growth.

Along with other services, UCF is offering information resources similar to those in Littleton, as well as decision-making tools (e.g., strategy analysis, capital

referrals). UCF develops the tools, and they are distributed to businesses via technical assistance teams that work in the six regions.¹⁵ Again, these tools are similar to resources identified by Michigan business leaders as those that are of high value to successful growth.

Based on PPA's research, it is clear that there are select resources and services that business owners value and consider to positively impact their ability to grow and prosper, even in Michigan's current economic condition. And other locales in Colorado, Florida, Wyoming,

¹⁴ City of Littleton, "Economic Gardening" (2010). <<http://www.littletongov.org/bia/economicgardening/>>

¹⁵ GrowFL, "Cultivating Growth Companies" (2010). <<http://www.growfl.com/>>

Georgia, Oregon, Connecticut, Wisconsin, Mississippi, and Tacoma, Washington are beginning to use similar tools to aid their businesses. Although there is no empirical evidence that business success can be attributed to these programs, business leaders themselves identify these tools as useful and valuable in their individual businesses.

An Economic Gardening Strategy

The new economic direction for Michigan focuses on strengthening small firms that are positioned for growth. It does not preselect industries or firms. Instead, the firms select themselves based on the value that business owners see in the offered services. This approach assumes that many of the firms that can power a robust economic future are already here and that helping them grow successfully is a path toward that future. A Michigan economic garden will nurture these existing companies, but will also stimulate more individuals to launch their own growth-oriented firms.

The change from hunting to economic gardening broadens the focus from *reducing costs* through tax breaks, subsidized training, and similar devices to *improving competitiveness* through increasing market knowledge, management skills, and access to technology. Michigan's economic development strategy appears centered on compensating for deficits—real or perceived. Are our taxes too high? Are our regulations too cumbersome? Is our workforce inadequately trained? Political reality continues to dictate that we will continue to attempt to address these issues, as we have done for the past quarter century; many would point out, for example, that in a bidding war between the states over tax breaks for business attraction, it is foolhardy to disarm unilaterally. Whether such approaches continue or not, it is clearly time for Michigan to focus more intensively on strengthening the assets of its growing businesses. We need more than a deficit-based strategy.

The sections below on information and infrastructure address this shift head on. The section on environment shows how places conducive to the change might look and feel.

Information

The economic garden must be cultivated with a package of services that provide information to growth-oriented companies that improve their ability to prosper. The following examples of

these services, based on experiences around the nation and on the PPA research in Michigan, illustrate what might be particularly valuable in advancing the economic gardening strategy.

- *Customized market research.* A centerpiece of the Littleton work and in states like Florida, Georgia, and Wyoming is providing growth-oriented firms with high-quality market research. Such research requires access to a variety of costly proprietary data sources, and they are simply out of reach for small companies. Experienced consultants work with companies to help them access, analyze, and use the intelligence they gain about their current and potential markets. This process is more systematic, focused, and intensive than what most business owners could carry out alone or with in-house staff.

SBAM has experimented with delivery of such services in two Michigan counties. Although it is too early to gauge results in terms of job growth, the project director reports that, “Preliminary findings from the work completed so far indicate that providing growth-oriented companies (‘intent to grow’) with high-level market research is a good way to enhance their ‘capacity’ for growth. A Regional Economic Gardening Support Service allows the high cost for market research to be spread across multiple cost centers, thus lowering the costs for individual projects. It also allows a project to secure sponsored funding for a regional effort versus having to find funding to subsidize individual market research projects.”¹⁶

- *Growth diagnostics.* The PPA research cited above showed that many growth-oriented small firms would value help in identifying the barriers that could impede their efforts to grow and in mapping a strategy for overcoming them. This service would be carried out by expert general management consultants who have experience providing this type of service to similar companies. By organizing a market for this work, the consultants could provide the service at discounted rates. Again, this would put the price of the service within reach of small, developing companies.
- *Connecting top management talent.* The PPA research found that growth-oriented small firms saw some value in assistance in finding top leadership talent for their companies. This type of service would not only broker connections between small firms and available top

¹⁶ Mark Clevey memo to Jeffrey Padden, June 29, 2010, Summary of SBAM RBEG Projects.

talent, but also vet the candidates' qualifications. A young, fast-growing company may need sophisticated leadership capabilities in a variety of areas—finance, sales, operations, etc.—before they can afford them full time. Thus, they need a way recruit people who can play these roles on an as-needed basis, eventually becoming a full-time leadership team. Ann Arbor SPARK has begun to provide such a service to businesses in that region. SPARK provides opportunity for high-level job seekers to post their profiles on SPARK's Web site. SPARK then connects potential employers with such job seekers by means of position matching, networking events, and a monthly newsletter updating firms on those in the talent pool.

- *Temporary expertise.* High-growth small firms see value in bringing in content experts on a short-term basis to address specific problems or capitalize on emerging opportunities. These might include experts in financial strategy, manufacturing processes, marketing, or other areas. Again, a brokering function that makes such experts available to companies that otherwise would have difficulty identifying or screening them may be of value.

Questions for Consideration:

The ideas above illustrate the kinds of tools that could increase the capability and capacity of growth-oriented firms to succeed in reaching new markets, competing effectively, and adding new jobs. What other tools would complement them? Where and how have such tools been tested? How should those services be distributed to growth-oriented businesses throughout the state? What evidence exists about their effectiveness in increasing the successful growth of businesses, strengthening economies, and creating jobs? As an economic gardening strategy is rolled out, how should ongoing analysis of its effectiveness be built in?

Infrastructure

Michigan has an impressive infrastructure that must be incorporated into the economic gardening strategy. This infrastructure includes the Small Business and Technology Development Center

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(SBTDC) network, public libraries across the state, a world-renowned university system, the Michigan Economic Development Corporation, and other assets.

The Small Business and Technology Development Center network delivers business management consultation and training to about 10,000 customers each year. Its capacity and statewide reach make it an important delivery system. The value of its contribution to Michigan's economy could increase if the SBTDC network were to more explicitly focus on providing tools and support to firms with high growth potential. It can serve as a distribution system for the informational tools described in the previous section.

Public libraries, which over the past two decades have transformed into sophisticated information clearinghouses, could also be part of a statewide delivery system. The range of market intelligence licensed by the state could be made available to entrepreneurs through libraries, which would add significant capacity to the system.

Michigan's 15 public universities are a critically important asset for economic gardening. There is a strong correlation between innovation and economic growth, one which is well-documented in the economic development literature,¹⁷ and Michigan's universities can be sources of process and product innovations that can be commercialized by entrepreneurial firms. The University Research Corridor, comprised of Michigan's top research institutions, is committed to strengthening the role that they play in fostering a stronger economy. While various strategies for technology transfer have been attempted for decades, the stage seems to be set now—with strong commitments and actions from key university presidents—to improve and expand that process. This should entail much more than simply licensing intellectual property developed in the universities. In addition, it means supporting university faculty, staff, and students who wish to translate discoveries from the research to the commercial stage. One innovative approach to this is building structural links between the sciences and business schools and encouraging partnerships between students across those disciplines.

Technology transfer must include supporting university faculty, staff, and students who wish to commercialize discoveries.

¹⁷ S. Michael Camp, "The Innovation-Entrepreneurship NEXUS: A National Assessment of Entrepreneurship and Regional Economic Growth and Development," SBA Office of Advocacy and Edward Lowe Foundation (April 2005). <<http://www.sba.gov/advo/research/rs256tot.pdf>>

While universities can contribute intellectual seeds to new companies, they can also provide the fertilizer of market research. They could be at the center of the customized market research service described above. The business and communications schools can make great contributions to the methods for identifying prospective customers and how to reach them effectively.

The Michigan Economic Development Corporation has been Michigan's principal state-level economic development organization. Over the years, however, it has not been asked to embrace an economic gardening approach. Such a shift in Michigan's approach, therefore, suggests that its role could change to encompass new and different responsibilities and actions. It may be possible to redeploy some of the assets of the organization to carry out a modified mission. This would require equipping the MEDC staff with the skills and expertise to provide a different mix of services. It might involve serving as the broker for the types of high-value services described above, working through statewide delivery systems.

The Michigan Manufacturing Technology Center (MMTC) functions as part of the National Institute of Standards and Technology Hollings Manufacturing Extension Partnership and is a partner of MEDC.¹⁸ The MMTC describes itself as an "integral part of Michigan's statewide manufacturing strategy." The MMTC provides training opportunities and consulting to small and medium-sized businesses; by doing this with many businesses, they foster competition among the firms. According to a survey administered on MMTC's behalf to its clients in the 2007-2008 fiscal year, over \$66 million in investments have been made in MMTC's clients, over 2,000 employees have been hired or retained by MMTC's clients, and their clients have reported over \$48 million in cost savings.¹⁹ In many ways, this service models important aspects of an economic gardening strategy.

Questions for Consideration:

This section lists four assets of potential value in developing, marketing, and delivering an economic gardening strategy. What others should be included? Specifically, how can Michigan's community colleges be included? How can all of our assets be used effectively to support economic gardening?

¹⁸ Michigan Manufacturing Technology Center (2010). <<http://www.mmtc.org/About/about.aspx>>

¹⁹ Michigan Manufacturing Technology Center (2010). <http://www.mmtc.org/Why/why_choose_mmtc.aspx>

How would the universities, libraries, SBTDCs, and the MEDC need to change in order to support this strategy? In their current configurations, are they capable of focusing as suggested here? How would these assets be knitted together into a unified whole? Do they represent sufficient expertise and capacity to design, develop, and distribute a robust array of economic gardening tools?

Environment

For Michigan to fully capitalize on the potential for economic gardening, it must shake off the hundred-year history of a paternalistic economy and pursue a *culture* of entrepreneurship. Such an effort would include creation of new reward systems, public investment, and recognition. Perhaps success in this transition would be best signaled by this change: college graduates and mid-career migrants from the corporate world who launch their own firms would be seen as local folk heroes and role models. Cynthia Kay puts it even more powerfully. She envisions a future in which, "...a young person gets a job at a big company and everyone asks them: 'What's wrong with you? Why haven't you started your small business yet?'"

For Michigan to fully capitalize on economic gardening, it must shake off the hundred-year history of a paternalistic economy and a pursue culture of entrepreneurship.

Ideally, progress through this transition could be measured by tracking changes in public opinions and attitudes about entrepreneurship, entrepreneurs, and their importance to the economy.

Entrepreneurs tend to cluster in areas that are attractive to and friendly toward them and, as noted above, that means more than business costs. Much research in recent years has demonstrated that entrepreneurs prefer to associate with their kind in a mix of social and professional interactions.²⁰ As local networks of entrepreneurs begin to materialize, word spreads and the community becomes attractive to others of like mind and ambition. The kinds of communities that appear to foster this process are sometimes referred to as new urban communities. They are characterized by developments that include residential, retail, and commercial uses; dense

²⁰Toby Stuart, "The Importance of Networks," Ewing Marion Kauffman Foundation (2007) <<http://www.kauffman.org/research-and-policy/importance-of-networks.aspx>> and Martin Neil, Karen Dynan, and Douglas Elliot, "The Future of Small Business Entrepreneurship: Jobs Generator for the U.S. Economy," The Brookings Institute (June 2010). <http://www.brookings.edu/papers/2010/0604_innovation_small_business.aspx>

population that creates a sense of activity and energy; amenities such as bars, restaurants, galleries, music venues, and others; and those amenities are within walking distance of one another. One of our most valuable—and most mobile—assets is our college graduates. They can be a source of entrepreneurial potential, and the attractive communities described here can keep more of them in Michigan where they could start their own firms or become the highly talented human capital needed by others.

This implies that an appropriate role of government could be creating or stimulating the right environment, one that is attractive to and supportive of high-growth companies. Such a role can be played by using current resources to tilt local and regional development toward creating these new urban communities. Resources available to Michigan for such work include Community Development Block Grant funds, Neighborhood Stabilization Program dollars, and other resources administered by the Michigan State Housing Development Authority. The Michigan State Housing Development Authority (MSHDA) is focused on the importance of the “sense of place” to Michigan’s economic future, and the link between place and entrepreneurship is critical. Thus, MSHDA and other proponents of place-making must be seen as a key player in creating Michigan’s economy of the future.

Questions for Consideration:

It is clear that Michigan should create a physical environment that is friendly towards entrepreneurs and supportive of small business growth, but how can the work of MSHDA to create attractive places be integrated with strategies to support entrepreneurship and economic gardening?

While an economic gardening strategy can be launched with the current tax code and regulatory apparatus in place, improving both would be helpful. Is there any evidence that the political environment for doing so is different now than it has been over the past 20 years under both Republican and Democratic governors? If so, what changes in taxes and regulations would be useful?

How Michigan Can Benefit

The stakes are high and the potential benefits are clear. Michigan’s government and people must embrace the economy of the future, and doing so means different ways of thinking about

economic development and prosperity. Instead of relying only on the hunt for the large prey, we must grow our own in economic gardens across the state. We must value and support the entrepreneurs and companies that are the engines of economic growth. If we do so, we take our economic future into our own hands, rather than competing with the lowest-cost—and therefore poorest—venue for labor around the nation and globe.

Michigan must embrace the economy of the future, and doing so means different ways of thinking about economic development and prosperity.

By using our existing resources differently, we have the potential to perhaps double the number of successful, high-growth firms in the state, which would dramatically improve the jobs picture in Michigan. The tools exist to create the information, infrastructure, and environment to make that happen.

Michigan can be the first state in the nation to fully integrate economic gardening into the core of its economic development strategy. As such, we will become a center of gravity for economic thinkers, for the media, and for business people who want to live in a state on the cutting edge. Including a strong focus on intellectually rigorous evaluation of the initiative will allow us to constantly refine our efforts and to serve as a learning center for the country.

We now know that a more effective approach is possible, and we are continuing the research and development work to develop it. What remains is to build the public and political consensus around the proposition that it is time to cultivate Michigan's economic gardens.