Cluster development in transition countries: a tool for small business support

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Presentation Outline

- Findings on clusters in transition economies
- Lessons from cluster seminars, East West Cluster Summit, 28 - 31 October 2002 and Cluster Publication 2003
- Examples of clusters and policies in other transition countries
- Social capital a key ingredient

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Clusters in Transition Economies

- "Clustering" is the tendency of vertically and/ or horizontally integrated firms in related lines of business to concentrate geographically
- Political and economic actors in Slovenia, Slovakia, Czech Republic, Poland and Hungary have recognised the importance of clusters to help SMEs compete in a globalised economy by building on local competitive advantage

Relevance of SME sector in Slovenia, Slovak and Czech Republic, Poland and Hungary (2001)

Legend:
- % of all firms
- % of GDP
- % of Employment
- % of Exports
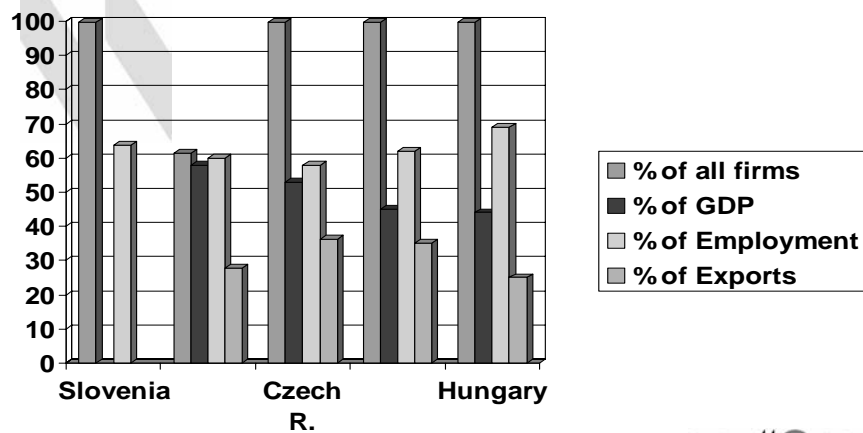
Advantages of Clusters

- Increase of employment
- Spread of innovation
- Upgrading of skills
- Upgrading of quality of products
- Increase of productivity of companies involved in clusters
- Increase of export volume
- Efficient use of resources (R&D, marketing, access to finance)

Obstacles to Cluster Formation in Transition Economies

- Legal and financial framework conditions for SMEs
- Heritage from past industrial policy
- Entrepreneurial spirit
- Lack of trust in institutions by entrepreneurs
- Lack of informal networks among entrepreneurs

Clusters as tools for local and regional economic development

- Established wisdom: Private sector must lead cluster development initiatives with public sector playing catalytic role
- Reality in transition economies: Private sector is composed of atomised actors lacking financial and social resources - Government may have to jump-start the process and provide financial and organisational support to firms
- Solution: Cluster support policies with shared responsibilities among actors

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Aims of the OECD LEED project "Clusters in Transition Economies"

- Raise awareness about concept of clusters among government and business circles
- Explore OECD cluster examples and their relevance in transition economies
- Create synergetic effect among policymakers, administration and entrepreneurs
- Adopt trans-national perspective
- Establish picture of conditions on the ground

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Cluster Seminars
November 2001 - May 2002

Highlights:

- *Slovenia*: Cluster obstacles - Lack of co-operation culture, lack of trust
- *Slovak Republic*: Cluster development - DATAR initiative and French-Slovak collaboration
- *Czech Republic*: Cluster future - Cross-border clustering in the north-east
- *Poland*: Cluster potential - Special Economic Zones and EU-Integration
- *Hungary*: Cluster fabric - Home-grown vs. externally driven clusters

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Cluster Cross-Country Comparison

	Slovenia	Slovakia	Czech Republic	Poland	Hungary
Importance recognised	X	X	X	X	X
State Financial Cluster Support	X		X		X
Cluster Mapping	X	Research started		Local research	

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Lessons from Seminars

- Co-operation among ministries to co-ordinate initiatives targeting SME support is vital
- Cluster support structures are necessary
- Balance between bottom-up and top-down approach is to be respected
- Leadership, neutrality, experience and professional competence of cluster brokers are needed

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East West Cluster Summit in Trieste, Italy, 28-31 October 2002:

- Clusters at a Global Perspective: The Internationalisation of SMEs, Clusters and Innovation, Social Capital and Clusters
- Study visits to North-Italian Industrial Districts:
  Manzano (chairs), San Daniele (food), Maniago (cutlery), Amaro (high-tech), Belluno (eyewear), Montebelluno (sport shoes)
- Country perspectives from Hungary, Poland, Czech and Slovak Republic and Slovenia: Lessons learned from cluster seminars and from study visits
- Launch of further cluster study (south-) east by inviting CEI member countries

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Cluster Publication 2003

- *"Clusters in Transition Economies"*

-Cluster mapping, cluster framework conditions,
      cluster internationalisation

-Potential obstacles:
  - Cluster definition
  - Lack of Data
  - Governmental financial support

-Research conducted by Johanna Moehring with local
  experts (johanna.moehring@oecd.org)

-Social Capital and Clusters (Dina Ionescu)

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Examples of clusters

- Poland
- Hungary
- Slovenia
- Czech Republic
- Slovakia
- Ukraine
- Lithuania
- Estonia
- Latvia

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Poland

- So far no specific political policy but work done by research institutes
- 2002 studies: High tech (Gdansk), traditional printing (Warsaw), agro tourism and food Lubleski (110 groups of rural producers and 8 agrotourism associations)
- The Polish example shows that there is a clear correlation between growth, exports, links with R and D, mobility of labour force
- Main problems: Lack of trust, fear to get ideas stolen, customers valued more than suppliers, lack of financing sources, lack of understanding of the importance to cooperate
- People who were interviewed consider: 60% consider they obtained new business contacts through collaboration and 45% that they got better information on markets and lower transaction costs

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Hungary

- 2000-2001 Strategy documents for economic development target SME and call for tenders
- 2002 government change and new tender to Establish Clusters
- TOP-DOWN strategy based on existing agglomerations
- Very weak intercompany relations and extremely weak links between big companies and SME
- Clusters linked to foreign-owned companies
- 21 clusters they are located in majority in the most developed regions (Western)
- Examples: Thermal, electronic, wood, fruits, food etc.
- Problem of dysfunctional legal rules: tender winners had to give collective guarantee but Hungarian law did not allow collective guarantee giving
- **Cross-border clusters examples:** Hungary-Austria Western Transdanubia Region: Pannon Automotive Cluster linked with Vienna and Pannon Wood and Furniture cluster (linked with Niederosterreich)

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Slovenia

- **Political support at national level through the Ministry of Economy**
- **1999: identification of potential clusters through research, data analyse, interviews, survey and questionnaires, identification of relationships among enterprises and institutions, identify innovation systems: learn who your competitors are and what the relations among enterprises are**
- **Link with Chambers of commerce, R and D and Developing Centres**

Conclusions:

- **No real clusters but potential clusters**
- **7 innovation systems identified**
- **2001: 3 pilot projects automotive, tooling and transportation**
- **2002 8 new initiatives**
- **Implementation till 2006**
- **Results from research: what are the most important areas of cluster promotion: Have involvement of top management and good, neutral leadership; Public authorities can provide space and office equipment; Provide a common vision and communication campaigns**

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Czech Republic

- 2000 political support through SME programme to support establishing association and co operations among SME by the Ministry of Industry and Trade
- 58 applications, 7.1 million euro and support from the Czech Moravian Guarantee Development bank
- Link also to foreign direct investments: cooperative association SIPKA (100 SME and shops) linked to the hypermarkets Kaufland in Ostrava

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Slovakia

- No explicit cluster policy but many industrial concentrations and especially around Bratislava because of the link with Austria (automotive cluster)

Ukraine

- Association Podillza Pershiy in region of Podillza supporting very strongly cluster development
- Food processing, agro-eco tourism, apparel, construction, food

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Estonia

- Ministry of Economic, division on SME and innovation, very focused on innovation and research and development, support of Regional Development agencies, importance of political leadership and commitment

Lithuania

- Problem of lack of cooperation, identified potential clusters TV set, timber and furniture, milk, biotech

Latvia

- Research by the Baltic International centre for Economic Studies
- Industrial concentration around Riga
- Potential clusters food, wood, textile, engineering, chemical and pharmacy
- Support from PHARE programme for 4 clusters: info systems, engineering, timber, high tech

OECD Definition of Social capital

- "Networks together with shared norms, values and understanding that facilitate co-operation within and among groups"

Social capital and economic performance

- **At <u>MACROECONOMIC</u> LEVEL**

    – social capital identified as an integral component of social and economic development (World Bank)
    – positive correlations between social capital and various indicators of economic performance (Putman, Helliwell, Fukuyama)

- **BUT!**
    – Complexity of the relations between social capital and economic performance because of many other variables

Social capital and economic performance

● **At <u>MICROECONOMIC</u> LEVEL**

– "Social capital is composed of social resources that provide useful "capital" for individuals, it is one resource available in neighbourhoods where self employed live" (Gomez, for OECD <u>The effect of social capital and neighbourhood characteristics on the performance of credit constrained micro entrepreneurs</u>)

– "firms can benefit from norms of co-operation , trust embodied in various types of intrafirm and interfirm networks" (The Well Being of Nations, OECD)

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Social capital and economic performance (continued)

● **BUT!**
– Social capital a variable among others:
  • External economies in clusters due to the market size
  • Social capital and SME internationalisation: clusters performing better not because of high levels of social capital but because of strong international scope
– Negative effects of social capital on performance
  • exclusion of outsiders poor mobility, fewer chances for innovation
  • negative socio-economic impact through exclusion of the poorest
  • negative social capital in transition economies (very closed networks, lack of transparency and illegal methods)

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What are the concrete effects of social capital on enterprises within clusters?

– KEY elements for INNOVATION and Entrepreneurship

- Lower transaction costs
- Fewer bureaucratic processes
- Lower Information costs
- Better co-ordination based on trust
- Knowledge spillover
- Higher productivity of Self Employed

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Social Capital as one of Cluster Promotion Instruments

- Improving framework conditions for business activities in general
- Investing in infrastructure
- **Encouraging associative activities among the business community**
- **Fostering links between university/ research institutions and the private sector**
- Financing cluster activities through local development agencies (real estate, consulting, **training, mentoring**…)
- **Encouraging linkages among companies, between industries and between firms and supporting institutions**
- **Offering direct financial support to clustering firms**

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Social capital within Cluster Promotion strategies

- Social capital is difficult to construct : public intervention should play a **catalyst** role, supporting existing or emerging clusters

- Clusters and social capital are both deeply related to the local context and this **local culture** however, supporting social capital through promoting business networks can have a positive impact on the performance of firms

- Encourage **dialogue** among business and public authorities to identify **synergies** and to address market failures: public-private-NGO partnerships

- **Concrete measures** : support voluntarily activities, capacity building, education and networks, partnerships, professional cluster consultants and business support centres.

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OECD Policy Recommendations on Clusters and Social Capital

- Adopt hands-off approach: **Clusters cannot be started from scratch** by government intervention (social capital as a precondition?)
- Create framework conditions conducive to enterprise development in general and cluster development in particular (regulation, infrastructure, real estate, barriers to **associative** activity…)
- **Support local public-private partnerships**
- Identify and address market failure (lack of social linkages a market failure?)
- Let the private sector sit in the driving seat of cluster development
- Respect that each cluster has different policy implications
- Foster a culture of evaluation
- **Become part of an international cluster learning network**
- **Professionalisation of clusters intermediaries as builders of social capital**

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Key words on social capital and clusters

● Proximity, reciprocity, reliability, network(s), association(s), community, interrelation, interaction, inclusion/exclusion, communication, norms, values, culture, behaviour, trust, public good, societal investment, communal property.

Recommendations for a first road map in the region Hrvatska Kostajnica

● What are your regional strengths, weaknesses, opportunities and threats (SWOT model)?
● Analyse local industries, know how, labour force skills?
● Use «SERVANT» model

Questions and Research
● Think partnership (collaboration, networks, associations, get together)
● Think cross border (link with Bosnia)
● Think local and global –international networks and use of Internet
● Think financial opportunities (national, regional, municipal, private, international)
● Think leadership and top management
● Settle short-mid-long term objectives

Thank you

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