

**BOLOGNA 2000 SME CONFERENCE
BUSINESS SYMPOSIUM**

**ROUNDTABLE 2:
Local Partnership, Clusters and SME Globalisation**

ISSUES PAPER

This paper provides a basis for discussions by business participants in the Business Symposium Roundtable on Local Partnership, Clusters and SME Globalisation to be held in Bologna on 13 June. **Roundtable presentations and discussions will highlight specific suggestions for concrete initiatives** in the spirit of those included in the final declaration of the conference and will be presented to Ministers during the 14-15 June Bologna Conference.

ROUNDTABLE 2

Local Partnership, Clusters and SME Globalisation

ISSUES PAPER

1. It is a widely observed phenomenon that SMEs belonging to clusters and networks are often more competitive and innovative than those operating in isolation. Business networks take different forms and serve different objectives. Some are structured and formal, while others are informal. Some aim at general information-sharing, while others address more specific objectives. Networks can allow accelerated learning among firms. Furthermore, to innovate, entrepreneurs often need to reconfigure relationships with suppliers, which networks can facilitate. And networks can allow the exploitation of specific scale economies present in collective action. Over time, networks have come to encompass agreements with research bodies, education and training institutions and public authorities. Examples of the diversity of clusters and networks might include the following:

- Regional clusters – *e.g.* firms in related lines of business choose to locate and operate in close physical proximity. Nearly all countries have examples of regional clusters. Some, such as those in Emilia Romagna, have achieved international renown.
- The Nanyang societies amongst ethnic Chinese in Asia. These are based on extended families and serve to bring together expertise and finance. The firms often operate in close physical proximity, but can also be located at a distance.
- The use of co-operatives, in agriculture and emerging industrial firms in developing countries to provide greater cohesion and market power to small firms.
- Retailers, restaurants and specialists tend to cluster both physically and in terms of product offerings – the Hotelling ice cream seller phenomenon (*i.e.* many contiguous sellers offer the same products).
- Business angel networks. These networks aim to match informal investors (so-called “business angels”) with ventures seeking small amounts of equity finance, although some networks also give advice to entrepreneurs and investors.

2. The common theme in connection with such organisational forms seem to be that small firms can work alone but can also form part of a larger grouping. When working together, SMEs can often increase their focus through specialisation in functions that are complementary within their networks. They can also exercise greater influence on the policy and general business environment created by governments and development agencies. The networks which permit a larger grouping can be geographically dispersed, and even virtual, although physical proximity is often an important source of competitive advantage. The benefits of being in close proximity stem, for example, from greater access to information, the presence of concentrated and often specialised labour markets, proximity to suppliers and customers, the increased practical opportunities for mutual gains from joint marketing,

technology sharing, mutual credit guarantee programmes and various other forms of inter-firm collaboration.

Key issues in improving networking and cluster initiatives

3. There are a number of issues of relevance to business, some of which have been raised in the informal survey of business associations. For example, in the field of design and implementation of networking programmes, issues relate to the extent to which networking objectives are explicit, targeted and match the aspirations of firms. It also appears that a key to the success of network initiatives is the neutrality, business experience and professional competence of network brokers. The survey respondents indicated that in instances where objectives are not clear, and where problems in negotiation arise, larger firms tend to exercise unfair bargaining power.

4. In connection with enterprise clusters survey respondents cited problems in finding suitable cluster partners, or reluctance on the part of universities or government organisations to actively participate in networking and clustering. Survey respondents likewise cited a lack of policy co-ordination between different levels of public authorities in the same country or across countries. An additional important issue which spans both the networks and clusters themes is whether the emergence of e-commerce and the Web will change the incentives that firms currently have to co-locate, possibly leading to new patterns in the geographic distribution of economic activity. Furthermore, the Internet provides opportunities for network initiatives which as yet have barely been exploited. How best these opportunities should be used is a subject of direct interest to private enterprise.

5. The establishment of partnerships to help develop clusters can be facilitated by involving private actors, NGOs and different levels and sectors of public administration, leading to mutual agreements on individual responsibilities in local cluster and networking development strategies. Nevertheless, while activities inclusive of all relevant actors are essential, the private sector must lead cluster-development initiatives, with the public sector playing a catalytic role (*e.g.* in co-locating complementary public investments with related concentrations of private investment, or by providing seed-funding for networking initiatives). However, firms are sometimes reluctant to enter into collaborative arrangements with potential competitors. The reduction of barriers to collaboration is important, and may yield benefits for all involved. How the public sector can best create the required trust and catalyse collaborative undertakings is a question of widespread interest.

6. Existing or embryonic clusters can be strengthened through public policy by: facilitating access to accommodation for start-ups and small firms; fostering local specialisation and adaptation in university-industry linkages; disseminating appropriate information; promoting the establishment of suppliers' associations, learning circles and other forms of collaborative undertaking; ensuring effective technical support services; and ensuring access to efficient communications and transport infrastructures. Public programmes in a range of countries have at different times addressed all of the above-mentioned issues. Assessments of best practice in such programmes, from a private sector perspective, might help the formulation and implementation of future policy.

In what areas is international co-operation required to improve the business environment?

7. With a view to facilitating investment and maximising locational advantage, local, regional and national developmental authorities should be encouraged to disseminate information on existing and emerging clusters throughout the international business community.

8. International co-operation could also be pursued to actively develop cross-border clusters or "triangles" (such as the Mekong Development Region) where there are advantages to be gained from so doing.

ISSUES FOR DISCUSSION

9. What areas of government policy and regulation do enterprises see as most in need of change in order to foster enterprise clusters ? For clusters of high-tech firms in particular, how can government action facilitate their interaction with universities and other centres of education ?
10. How should the public sector best use electronic media in developing network programmes ?
11. As private actors are often reluctant to engage in collaborative endeavours with potential competitors, how can the public sector best improve awareness of, and reduce the barriers to, inter-firm co-operation ? Which might be the most efficient incentive structures that the public sector could employ in this connection ?
12. Which examples of government policy towards networks and clusters would private business recommend be considered as “best-practice”?

ANNEX

BUSINESS SYMPOSIUM SURVEY:

Summary of principal suggestions for policy action, retrieved from the survey amongst business associations

Impediments *	Suggested policy actions
Lack of information about potential co-operation partners	<ul style="list-style-type: none"> • Building of formal and informal information networks. • Creating a site on the Internet. • Developing of information systems and (local) advice services.
Lack of interest among technical universities to participate in business networks	<ul style="list-style-type: none"> • Setting up of “business incubators” at the universities. • Including university staff within the financing programmes for innovation in business, as consultants. • Developing policy to intensify the relationship between firms and universities. • Raising awareness of benefits from participating in business networks.
Weak position of small firms vis-à-vis large enterprises	<ul style="list-style-type: none"> • Improving and promoting partnership agreements. • Developing of policy specific for the needs of SMEs.
Lack of policy co-ordination between different public authorities	<ul style="list-style-type: none"> • Government has to improve the existing instruments and procedures. • The government should co-ordinate goals and programmes better. • One-Stop Shop!

* In the order of the impediments most frequently ticked by the respondents.