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

«CEI WORKSHOP ON CLUSTERS»
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Presentation Outline

- Findings on clusters in transition economies
- Examples of clusters and policies in other transition countries
- Social capital a key ingredient
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)
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

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
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

Cluster Cross-Country Comparison

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<th>Slovenia</th>
<th>Slovakia</th>
<th>Czech Republic</th>
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<th>Hungary</th>
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<td>Importance recognised</td>
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<td>State Financial Cluster Support</td>
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<td>Cluster Mapping</td>
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<td>Research started</td>
<td>Local research</td>
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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

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
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)

Examples of clusters

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

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)
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

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
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

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 MACROECONOMIC 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 MICROECONOMIC 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 The effect of social capital and neighbourhood characteristics on the performance of credit constrained micro entrepreneurs)

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

**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)
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

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
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**
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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