Clusters, Competitiveness and Co-operative Advantage

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What are clusters?
Alfred Marshall
Principles of Economics, 1890
Staffordshire pottery

Buckinghamshire chairs

Sheffield cutlery

Bedfordshire straw plaiting
What are clusters?

Clusters are groups of geographically proximate firms in related industries and related institutions.
Surfboard makers

- Surf shops
- Surf clothing
- Local surf heroes
- Media
- Competitions
- Festivals
- Surf Clubs
- Surf Schools
- Manufacturing Association
- Lobby Groups
- Museums
- Local university
- Other local education

Foam & fiberglass
Wax
Chemicals
Skateboards and Snowboards

Source: HBS MOC student team
How do they work?
How do clusters arise?

Clusters are naturally occurring phenomena

The grow out of seeds such as:
- natural resources
- particular local demand
- acts of entrepreneurship

Evolution versus construction
- Most clusters have evolved spontaneously
- Some clusters are built as acts of policy
What are the benefits of clusters?

Mechanisms

- Externalities: when firms benefit from the presence of other firms in ways they don’t have to pay for
  - Access to highly specialised inputs
  - Knowledge spill-overs
  - Local labour pool
Clusters
Innovation
Entrepreneurship
Productivity
Prosperity
Why do we need cluster initiatives?
A cluster…
A cluster… or isolated islands?
Weak interaction

Poor knowledge
Sparse networks
Different “languages”
Different norms and attitudes
Different visions
Low trust
Negative incentives

Strong interaction

Good knowledge
Dense networks
Common “language”
Similar norms and attitudes
Shared vision
High trust
Positive incentives
Reality is inefficiencies

+ Knowledge failures
+ Network failures
+ Collaboration failures
+ Coordination failures

= Innovation failures
The seven gaps of innovation

1. The research gap
2. The education gap
3. The capital gap
4. Government gap
5. The company-to-company gap
Cluster-to-cluster gap
Global market gap
Collaboration priorities

- Among firms in the cluster
- Firms and research institutions
- Firms and educational institutions
- Firms and public organisations
- With other cluster organisations
- With global markets
- Firms and financial institutions

High priority  Medium priority  Low priority  Not done
What have we learned about successful cluster initiatives?
Six main conclusions
It is all about building bridges
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Build from strength
Bringing people together is easier if you are neutral
Mixed governance
board composition

- Private sector
- Public sector
- Academia
- Financial inst.
- Non-profit
Public long-term commitment helps
You need a cluster manager with a network
Cluster manager’s background

Previous work experience

- Private sector
- Public sector
- Academia
- Financial inst.
- Non-profit

Percentage breakdown:
- <1 yr
- 1-10 yrs
- >10 yrs

0%
25%
50%
75%
100%
Begin with the low-hanging fruit
What are the implications for firms?
Advice to firms

- Don’t join a cluster organisation to help build a cluster; join it to get help with your business challenges
- There are more opportunities for collaboration nearby than you think
- There is strength in numbers if you want to internationalise
- Cluster organisations provide a legitimate voice when talking to government
- It is possible to compete AND collaborate