

## DEFENDING CLUSTERS AGAINST CRITICS

Sarmiza Pencea\*

### Abstract

*In recent years, almost everybody became interested in clusters. Companies, businessmen, scholars and policymakers alike seem to be fascinated by the clustering phenomenon and its potential to trigger, or to further stimulate, economic growth and development. This remarkably large interest seems to be entirely justified if we just overview some of the most important benefits clusters can generate.*

In recent years, almost everybody became interested in clusters. Companies, businessmen, scholars and policymakers alike seem to be fascinated by the clustering phenomenon and its potential to trigger, or to further stimulate, economic growth and development.

This remarkably large interest seems to be entirely justified if we just overview some of *the most important benefits* clusters can generate:

- Clusters create agglomeration economies, economies of scale and scope, generating spill-over effects, reducing costs and increasing efficiency;
- They combine cooperation and competition in ways that improve performance and stimulate innovation;
- They improve access to resources, information, specialized infrastructure, institutions, services and financing;
- They encourage the birth of new companies (spin-offs and start-ups), which generates a dynamic and competitive environment, proper for economic growth, higher productivity and competitiveness;
- Clusters improve learning processes and fasten the diffusion of knowledge and best practice;
- They also help member companies to better identify and turn into account opportunities, and, on the other hand, to better face challenges and risks;
- Clusters make it easier for companies to export, to expand abroad, to cooperate internationally and to get global recognition;
- For the regions where they function and for the local communities in these regions, they bring more and better paid jobs, better opportunities for

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\* Sarmiza Pencea, Ph.D is researcher at the Institute for World Economy in Bucharest.

setting up businesses, higher investments, more efficient use of local resources, economic growth and higher living standards.

When studying the economic literature on clusters, one can notice that, just like any other concept, idea, or practice, besides positive attitudes, clusters also gave rise to some critical remarks and worries.

Speaking about positive attitudes, we should point out that, in spite of their numerous benefits (of which only some of the most important have been mentioned here), *clusters and cluster policies should not be seen as universal panaceas*, simply because they cannot solve each and every economic problem. Clusters and cluster policies should be seen only as what they really are: a potential means to improve the economic environment and to increase firm competitiveness. This is extremely important, but it surely doesn't cover all the range of questions related to economic development.

Speaking about critical remarks and worries, we come to the real focus of this paper, which is to look at the potential disadvantages clusters could create for the economy of the regions where they are located, or for the local communities in these regions.

1. One critical remark, which generated extensive debates in cluster literature,<sup>1</sup> is that *the deep specialization induced by clusters diminishes diversity* in the regions of their location.

We obviously cannot deny that clusters deepen specialization, but we must reassess the well-documented fact that *specialization is beneficial*, because it leads to better quality, economies of scale, higher efficiency and improved competitiveness in international markets.

On the other hand, in an encouraging business environment, well-performing clusters are able to determine the development of a whole range of different activities, which are either linked in the production chain of their core activity, or are complementary, or support activities. Also, powerful clusters normally generate the birth of new companies, of new fields of activity and of other new clusters in completely different categories. Therefore, it means that *clusters may contribute to economic diversification* and that *normally, market mechanisms enable clusters to strike the right balance between specialization and economic diversification*.

Finally, *if governments manage to treat all clusters equally*, irrespective of their category, size, age, performance or power, supporting projects on a competitive basis and not clusters selected in a discretionary manner, then diversity can be easily preserved.

2. Another critical remark is that *the presence of clusters could put the other industries in their region at disadvantage*. Companies functioning in a completely different field than the cluster located in their region, might

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<sup>1</sup> Ammirato *et al* (2003).

feel that they are disadvantaged by its presence, especially because of the competition for labour and other inputs.

But, this phenomenon is part and parcel of the normal changes that occur in a market economy. Companies must face this sort of challenges. They must *learn to manage change*, to adapt to the new environment, to try to identify and use the opportunities created by, for instance, the birth of a cluster in their region, and to avoid or reduce the potential damages. The companies which prove themselves able to adapt, will survive, while the others will disappear, and although this might sound very drastic, *this is the market mechanism which leads to economic restructuring and upgrading and to better allocation of resources*. If the resources in one region are better turned into account by the cluster than by the other companies, it means that both the presence of the cluster, and the restructuring, or the disappearance of the other companies are beneficial, leading to superior economic performance in the region.

3. A further remark, connected to the previous one, is that clusters could have a negative impact on the local population if a *region becomes too dependant on the specific activities of clusters*.

Here we must underline that there is a great difference between the local dependence on a cluster, and the kind of dependence specific to mono-industrial regions. *A cluster is not mono-industrial*. Even if it has one core activity, *a cluster always develops, vertically and horizontally, many other different activities* and, additionally, because clusters rely heavily on innovation, they often become the *breeding place of many young companies, in newly born fields*.

Therefore, the local communities cannot not face the risks of a mono-industrial area, because in developing or mature clusters, innovation, efficiency, productivity and competitiveness increase constantly; this leads to higher wages and increased buying power for the local population, higher incomes for the local governments, better public services and investments, and all these allow for higher living standards. This is completely opposed to the situation in mono-industrial areas, where both the monopoly and the potential bankruptcy of the only industry in the region, leave employees without choices and bring unemployment and poverty.

4. Another worry expressed by theoreticians is that *clusters might become resistant to change*.<sup>1</sup> Geographic proximity in a cluster, they say, can be both an advantage and a disadvantage. The positive aspect is that proximity allows for faster progress along a given path, while the negative aspect is that the very success of the cluster might turn it resistant to change.

Clusters offer an environment which promotes learning, competitiveness and growth, but along the same path, of their core activity. The question is if such

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<sup>1</sup> Lundvall (2003).

structures could accept a radical change, the switch to another path, required by the market when their core activity becomes obsolete.

In our opinion, the answer is quite obvious. What is obsolete disappears, sooner or later, irrespective of any opposition. Just like living beings, clusters are born, they grow, become mature, decay and die.

Indeed, considering their past success and the difficulties of switching to a new core activity, the companies in a cluster might show resistance to radical change. Still, their choice, at the right moment, could make the difference between survival and death, and therefore, they will normally fight to survive, switching to a new activity no matter how difficult this might be.

5. Finally, some critics consider that *cluster-based development cannot work in country X, because the companies in that country lack any propensity to cooperate with each other.*

But, numerous empirical studies show that clusters are functioning all over the world, irrespective of their cultural contexts. Companies willingly choose to make part of a cluster because they get the opportunity to become more profitable and competitive. When they have to cope with fierce competition and their survival comes to depend on their agglomeration in clusters, companies will make this choice naturally, and they will cooperate with each other.

The birth and proliferation of clusters is a natural stage in the evolution of companies and of the business environment, therefore they will appear sooner or later in every economy. *“The challenge for an economy is to move from isolated firms to an array of clusters, and then to upgrade the breadth and sophistication of clusters to more advanced activities.”*<sup>1</sup>

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<sup>1</sup> Porter (2003).

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