CLUSTER INTERNATIONALISATION – A KEY OPPORTUNITY FOR
ENTREPRENEURIAL SMALL BUSINESSES

Abstract

Internationalisation is a key opportunity for entrepreneurial small businesses to access knowledge and new markets, thereby improving their competitiveness and producing economic growth. Cluster organisations and their networks can help entrepreneurial small businesses overcome some of the barriers to internationalisation. Manchester Metropolitan University Business School has been one of seven European partners in the TACTICS cluster policy project that has produced the Cluster Internationalisation Handbook. Entrepreneurial small businesses will benefit from transnational collaboration by using the Handbook and the Cluster Internationalisation Journey model. Other TACTICS reports on cluster marketing and branding, and on using clusters in emerging industries and services are relevant to cluster internationalisation. The report on emerging industries links to regional smart specialisation strategies and shows how these can be used through transnational collaborations to address European societal challenges.

AIMS AND OBJECTIVES

Clusters existed before Alfred Marshall (1890) described them in economic terms and Michael E Porter (1990) developed the concept as a driver for competitiveness and innovation.

European policy makers widely accept that clusters are a major driver for internationalisation and with that growth and prosperity. Many regions use cluster development to reverse engineer the growth of existing and embryonic clusters. The Cluster Initiatives Greenbook (Sölvell, Linqvist and Ketels, 2003) and the Cluster Policies Whitebook (Andersson et al, 2004) analysed cluster development and identified European best practices. A market failure is that many SMEs in Europe do not realise the opportunities for international collaborations.
Policy makers have to continue to support cluster development programmes that promote internationalisation, in coordination with other policy tools.

The TACTICS Cluster Internationalisation Handbook (2010) addresses the main needs of cluster organisations and policy makers to provide benefits for SMEs.

- To articulate the “Why?” for Internationalisation - to provide access to markets and to knowledge, raise the profile of the cluster and the cluster organisation, influence policy, and increase funding from policy makers
- To understand the “How?” for Internationalisation - to enable a cluster organisation to make the “Internationalisation Journey” on behalf of its member businesses, becoming outward facing with international recognition

Key cluster internationalisation challenges:

- Developing international strategies and competencies
- Identifying partners and developing commercially valuable relations internationally
- Financing international activities, particularly for SMEs
- Agreeing on functional governance/decision-making structures in transnational settings

PRIOR WORK

*Europe 2020* (2010), the European Union’s ten-year growth strategy and two of the key subsidiary strategy documents, the *Innovation Union* (2010) and *An Industrial Policy for the Globalisation Era* (2010), provide the policy context. They set out the importance of internationalisation, especially for SMEs, and the role of clusters as delivery bodies.

recommendations including “the development of a toolbox for cooperation among clusters aiming for international networking and internationalisation”. The TACTICS Cluster Internationalisation Handbook is the first stage in the development of the toolbox.

The TACTICS project built on the previous INNO-NETS projects funded by the European Commission, especially CLUNET and INNET. TACTICS collaborated with the EU-level cluster development initiatives running in parallel: the European Cluster Collaboration Platform, the European Cluster Managers’ Club and the European Cluster Observatory.

**APPROACH**

**The TACTICS Project**

TACTICS aimed to develop better cluster policies and practical tools for implementation in Europe. TACTICS supported and expanded the European Cluster Alliance (ECA) network of policy organisations in Europe interested in cluster development. DG Enterprise and Industry funded TACTICS.

TACTICS, coordinated by OSEO (France), brought together seven leading European innovation and cluster policy organisations: VINNOVA (Sweden), TMG Upper Austria (Austria), Manchester Metropolitan University (UK), IWT – Flanders (Belgium), Veneto Innovazione (Italy), and PARP (Poland). Manchester Metropolitan University replaced the Northwest Regional Development Agency due to its impending closure. The partners had considerable experience of cluster development and improving policy cooperation. A Reflection Group of external cluster policy experts assisted six task forces on policy actions:

- Fostering international cluster cooperation
- Channelling RDI funding through excellent clusters
- Fostering user-driven innovation through clusters
- Supporting cluster marketing and branding
- Evaluating cluster excellence
- Using excellent clusters to address emerging industries including innovative services
TACTICS also produced a summary of recommendations, and “Where the cluster winds are blowing in Europe” (2012), highlighting the current and future trends in cluster development as a tool for innovation and economic growth.

TACTICS Cluster Internationalisation Handbook methodology:

- Review of cluster literature and recommendations from earlier projects
- Input papers
- Two workshops involving Reflection Group members
- Output paper developed into the Handbook
- Consultation with ECA members and cluster managers
- Workshops to test draft Handbook in Denmark and Sweden
- Presentation of interim results at key European cluster development conferences
- Inputs to related strategies and projects, eg Smart Specialisation Strategies (S3), State Aids Rules review, European Forum for Clusters in Emerging Industries (EFCEI)
- A Glossary of Terms for all TACTICS outputs

The TACTICS partners used a similar methodology for the other policy documents published in October 2012.

RESULTS

The Cluster Internationalisation Handbook uses the ten steps in the “Internationalisation Journey” diagram (Figure 1). The Journey starts with an inward looking “local” cluster and ends with an outward facing “global” cluster.

For each step:

- Overview of current knowledge and the rationale for intervention
- Summary of available tools
- List of practical examples including case studies collected by TACTICS
- Checklists for cluster organisations and policy makers to proceed to the next step
The steps form three phases:

- **Get Ready** – before significant international activity occurs
- **Take Action** – for setting up, carrying out and evaluating projects or collaborations
- **Use Networks** – for using, sustaining and revitalising networks

Utilise Funding is a crosscutting theme.

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**Internationalisation Cluster Cooperation: The Journey**

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**Figure 1 - The Internationalisation Journey**

In practice, cluster internationalisation is an iterative process with a need to revisit and improve the activities carried out in the early steps. Cluster internationalisation is not accomplished in a single journey. Pilot internationalisation activities take place in one or two countries or regions, or focus on a sub-cluster of businesses.

Clear evidence of opportunity and need, plus market failure, has to justify public sector funding intervention. The rationale for intervention:

- Provide access to markets and to knowledge
- Raise the profile of the cluster and the cluster organisation
- Influence policy and funding
Intervention can provide direct and indirect benefits for entrepreneurial small businesses.

Why?

The generic benefits of internationalisation:

- To businesses in the cluster, especially SMEs
  - Access to knowledge, for new products and services
  - Access to new markets
  - Access to key infrastructure (pilot plants, living labs)
  - Access to new international collaboration partners
  - Raised profile
- To the cluster organisation
  - Raised profile
  - Access to new international collaboration partners
  - Access to new international partners for staff exchanges
  - Improved ability to benchmark performance
- That the cluster organisation can deliver to the region/member state
  - Increased competitiveness and export performance by key businesses
  - Increased access to potential inward investors
  - Increased level of external funding utilised
- To policy makers
  - Improved ability to benchmark performance of the cluster development programme
  - Improved return in investment in cluster development programmes
  - Better understanding of the framework conditions needed by cluster organisations to operate more effectively internationally

Assess Readiness

Many cluster organisations achieve early successes in encouraging collaborations amongst the cluster members.
The TACTICS partners developed a diagnostic tool for cluster organisations to assess readiness using the UKTI Passport to Export assessment tool for SMEs (2010) and similar tools from other countries.

**Identify Opportunities**

Cluster organisations need to:

- Obtain information on relevant global market opportunities and threats
- Obtain information on the knowledge gaps within the cluster
- Combine this with the cluster strengths and assets
- Produce a portfolio of potential opportunities, the likelihood of success and the magnitude of the benefits
- Increase awareness of relevant cross cluster opportunities and the mechanisms to identify opportunities, consider options and prioritise
- Raise the awareness of SMEs
- Use benchmarking to identify strengths and synergies

The cluster organisation has to prioritise. Clear market needs and demand define the opportunities that bring together complimentary partners with the capacity to take action.

**Create Strategy & Action Plan**

This should describe how the international opportunities will be realised. It needs to be part of the Cluster Strategy & Action Plan and fit with other relevant strategies.

The TACTICS partners have developed two generic Internationalisation Strategy & Action Plans, one for policy makers and the other for cluster organisations. However, one size of Internationalisation Strategy & Action Plan does not fit all.
Implement Training

Training courses and training material, such as case studies, will address gaps identified in the Assess Readiness Step.

Existing training courses or new courses, eg by Export Promotion Agencies, will meet most training needs of cluster organisations and policy makers. Staff exchanges and mentoring are useful.

Identify Partners

The key issues for prioritisation, and selection of markets and partners:

- Potential partners need to be complimentary
- Partnerships are more successful with partners having similar organisational structures
- Win-Win partnerships
- High level of self-awareness
- Work through existing structures, systems and networks
- Effective Branding and Marketing is essential to raise awareness and build reputation

Successful collaborations build on strong interpersonal relations and shared values between organisations and individuals. Networks and personal recommendations are particularly useful.

Partnerships should be identified that will generate benefits to SMEs.

Develop Trust and Projects

“Projects” cover all types of collaborations. The key to successful collaborations building on strong interpersonal relationships is that all partners share the risks and benefits.
The key considerations:

- Developing trust is primarily about people
- Initial contact has to be face to face. Visits are essential
- Longer visits are necessary to achieve in-depth sharing of expertise and knowledge
- Experiences from other cluster companies can facilitate the building up of trust
- Attending networking events
- Mutual learning and peer coaching
- Openness and a high level of professionalism in dealing with contacts
- Electronic communication
- An effective social network needs to have a critical mass of active members
- International offices and embassies as a conduit for information exchange and expertise in the local language, culture and contacts

The time needed to develop high quality and effective collaborations should not be underestimated. The process requires considerable commitment of people and finance.

**Implement Projects**

Cluster international collaborations have the complication of distance, language barriers and culture differences between the partners. Project management skills are essential plus patience and understanding to overcome the differences and the additional delays in delivering results. Project management tools and accounting systems that can deal with multiple currencies are useful.

Unexpected events and outcomes are a common feature of many projects and collaborations. These can be positive as well as negative.

Many projects start as a means of obtaining funding, but a better approach is to define the project, determine funding needs and then match the project to the available funding sources.
Measure Success

It is essential to articulate “What will success look like?” and make the relevant baseline measurements.

Measuring success is a continuous process. It covers learning/monitoring as the collaboration project is taking place, and evaluating/measuring success after the project has finished. Benefits will continue to occur after the end of the project. Evaluation should include the accumulative and longer-term benefits.

Key issues:
- Measure success at the individual project level
- Measure success at the overall level against the Internationalisation Strategy & Action Plan
- Use qualitative indicators in addition to quantitative measures

Sustain the Networks

Developing trust and good relationships for collaborations requires time and energy. These successful relationships should not lapse at the end of the collaboration but should be a basis for further collaborations.

Through careful planning and cooperation, the same group of partners can apply for staged funding from different programmes and demonstrate the progression from concept to commercial benefits to SMEs.

Networks, like clusters, have a finite life span.

Utilise Funding
Cluster internationalisation activities can use funding at European, member state and regional levels. Grants are not the only means of funding which includes soft loans, in-kind contributions etc. Common difficulties for cluster organisations are in accessing match funding for projects and in managing cash flow.

There is considerable scope for increasing the level of Channelling of Research Development & Innovation (RDI) funding through cluster organisations to provide better access to RDI funding for SMEs.

Major changes to EU policies and funding programmes will occur in 2014. The new emphasis will be on how cluster organisations can be catalysts for economic growth and revitalisation.

THE TUBE MAP

A more complex “Tube Map” (Figure 2) extends the “Internationalisation Journey” to show the iterations, related activities and key supporting organisations. Cluster internationalisation is a continuous process of improvement.
The Tube Map does not replace the Journey diagram. It provides practical help to cluster organisations and policy makers when they implement the Internationalisation Journey.

**EVOLVING INDUSTRIES**

The TACTICS report on “Using clusters to address emerging industries and services” (2012) concludes that there is no consistent and accepted definition of “emerging industries” or a methodological agreement on how to identify them. It is important to distinguish between a new technology, or business model, and an “emerging industry”.

The Metro Map diagram (Figure 3) describes the emerging industries process. Three factors (Portes) identify an emerging industry - Demand, Innovation and Competences of the businesses. These come together in the “Circle of Opportunity” that leads to success. The Continuous Improvement Loop Line indicates the need to refine and revisit markets, products
and competences as emerging industries develop. The Time arrow emphasises the process, and that timing is crucial to success.

The cluster initiative eco-system is where cluster organisations have a role. Entrepreneurs are crucial for novel and improved products and services.

**“EVOLVING INDUSTRIES”: THE METRO MAP**

![Metro Map Diagram](image)

**Figure 3 – The Metro Map**

**POLICY IMPLICATIONS**

TACTICS recommendations for cluster organisations to provide benefits to SMEs through internationalisation:

- **Lever Cluster Organisations as a Central Tool for Internationalisation**
Cluster internationalisation is a key component of many important activities - innovation, commercialisation, skills development, export promotion and attracting foreign direct investment.

Cluster organisations should:
- Collaborate closely with other support organisations - organising joint events, hot desk facilities etc
- Not attempt to deliver all types of support to their members

**Catalyse the creation of Regional Innovation Strategies for Smart Specialisation (S3)**

Cluster internationalisation is crucial to linking the S3s in complementary regions.

Cluster organisations should:
- Participate actively in the creation and implementation of S3s
- Explore synergies with complementary S3s
- Promote the sharing of knowledge infrastructure
- Raise awareness of activities delivering the S3

**Intensify International Cluster networking and cross-fertilisation**

Cluster internationalisation is crucial to stimulating continuous renewal and the emergence of new economic activities.

Cluster organisations should:
- Support existing networks and drive improvements
- Explore opportunities with related cluster organisations in countries outside Europe
- Participate in staff exchanges and mobility schemes

**Further Develop Funding Tools**

Cluster internationalisation requires funding at different stages. Innovation Express is a small scale funding mechanism developed by TACTICS for the internationalisation of cluster organisations and SMEs.
Cluster organisations should:
- Participate in Innovation Express bids
- Exploit other sources of funding
- Share good practice in obtaining and using funding

**Improve and target Branding & Marketing**
Cluster organisations need a high level of international visibility to deliver their international activities effectively.

Cluster organisations should:
- Develop high quality and targeted branding & marketing
- Use appropriate mix of channels
- Regularly assess effectiveness of branding & marketing

TACTICS recommendations for cluster organisations to provide benefits to SMEs through emerging industries:

**Smart observation and identification of new growth areas**
Smart observation provides a better understanding of new growth areas than published data, which is invariably out of date and designed for existing businesses, sectors and employment practices.

**Support to inter-clustering and cross-fertilization**
Cross-fertilisation between complementary clusters across sectors/disciplines and across geographies could include thematic platforms - ’grand societal challenges’.
Cluster organisations should promote open innovation and user involvement by facilitating access to testing/demonstration infrastructures.

**Broader EU policy context**
Integrate emerging industries/services and clusters in EU policy areas such as S3. Improve participation of SMEs through clusters in European initiatives and projects plus the channelling RDI funding through cluster organisations.

**New financing approaches**
More flexible selection, funding, and phasing are needed. Also public procurement procedures with a strong focus on pre-commercial procurement transactions that are better oriented towards cluster initiatives.

**TACTICS Follow-up**

Implementation of the TACTICS Handbooks:
- Six World Class Cluster collaborative pilot projects for cluster internationalisation (DG Enterprise)
- MoUs with key countries, eg Japan, Brazil (DG Enterprise)
- European Strategic Collaboration projects for cluster internationalisation (DG Enterprise)
- S3 is a key component of DG Regio policy
- Dissemination by TACTICS Partners including presentations at key conferences

The TACTICS partners and the ECA are developing key themes:
- Helping SMEs to manage change and risk
- Building trust between companies
- The role of entrepreneurism
- Linking to S3
- Understanding human psychology

TACTICS partners presented an update at the TCI2013 global conference on cluster development in Denmark.

**BIBLIOGRAPHY**


• European Cluster Policy Group 2010 *Consolidated Set of Policy Recommendations on Four Themes* Brussels


