

Re-Visioning
BUSINESS MANAGEMENT AND PSYCHOLOGY
Ecologies of Local and Global Contexts

Editor :
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WISDOM PUBLICATIONS

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Clusters and Smart Specialization: Are they the Effective Strategy for Enhancing Regional and Institutional Competitiveness?

Dr. Nibedita Saha* & Prof. Petr Saha*

ABSTRACT

Currently nations and regions are under stressed to enhance competitiveness as well as to maintain its sustainability to fit with the Horizon 2020 programme. The present debate on regional innovation systems, research and development strategy represents one of the most common policy approaches to address the strains between globalization and localization.

This paper discusses the idea of clusters and smart specialization strategy as an effective tool for improving regional and institutional competitiveness; in order to highlight the significance of linking different firms, people, and knowledge at a regional level- are one of the ways of making regions, institutions more innovative and competitive. For e.g. universities can stimulate the entrepreneurial spirit of their staff and students, by offering guidance and services in a coherent manner with business needs.

This paper tries to identify why should clusters be part of smart specialization? In this regard, the smart specialization concept was used as the leading concept for formulating strategic goals and measures related to regional economic development.

Finally, the outcome of this study shows clusters are powerful instruments to foster industrial competitiveness, institutional innovation and province growth due to their intrinsic competence. Therefore, they were used by policy makers worldwide as building blocks for implementing different policies such as research & innovation, industrial and regional policies.

Key words: Competitiveness, competitive advantage, globalization, institutional, localization, regional innovation policy, smart specialization.

JEL Classification: I23, R58, O38, O52.

INTRODUCTION

Today's economic map of the world is focused on regional competitiveness and innovation system characterized by globalization, economic reform, social and environmental challenges. Henceforth, nations and regions are under pressure to enhance their effectiveness as well as to retain its sustainability to fit with European Union's (EU's) new upcoming Horizon 2020 programme. Subsequently, there is needed a process that creates the right conditions of competition and co-operation to support the emergence of world class, specialized clusters that empower to achieve agglomeration effects. In this context the present debate on regional innovation systems, research and development strategy represents one of the most common policy approaches to address the strains between globalization and localization. Regarding these circumstances and the role of regions on competitiveness and innovation, clusters have become progressively an eminent approach and spreading phenomenon all around the world. Since then, the ideas of clustering have emerged as a critical force in economic development and strategic planning. It fascinates the attention of numerous policy makers, academicians and researchers from developing and developed countries. As a consequence the importance of clusters has been varied with the concept of smart specialization, a regional development strategy that seeks to escalate the efficiency and effectiveness of economic

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systems. Moreover, this issue has become a burning topic that focused on how to generate and enhance the necessary conditions like: social, cultural, institutional and regional aspects to achieve the highest competitiveness and innovation levels. Though there are certain gaps in smart specialization strategy that are needed to be covered, especially when signifying to the role of clusters. This paper tries to analyze the idea of both cluster and smart specialization strategy that act as an effective tool for facilitating regional growth and institutional competitiveness; in order to highlight the significance of linking different firms, people, and knowledge at a regional level- are one of the ways of making regions, institutions more innovative and competitive. These aspects are interpreted to show the potential implications of new RIS3 strategies (Research and Innovation Strategy) regarding clusters and vice versa, as well as their role as policy instruments (Del Castillo et al 2013).

OVERVIEW OF CURRENT BUSINESS ENVIRONMENT

The appearance of cluster and smart specialization notion has increasingly been identified as an important approach especially for enhancing and spreading the regional and institutional competitiveness to survive and to compete successfully in the world market. The aim of the paper is to address the question, whether and how clustering strategy could be enabling to boost regional and institutional competitiveness by finding appropriate niches in research i.e. by applying the idea of smart specialization. Meanwhile the main principle of smart specialization concept exemplifies a set of challenges, tensions and opportunities for the position of universities in regional innovation strategies. These potential issues have been discussed in this paper with the concept of both cluster and smart specialization strategy a dual perspective, with the evidence of theoretical approach and policy perspective. To do so, this paper describes briefly the traditional cluster approach and cluster initiatives, relationship between both the approaches that mutually reinforces and share common elements, contributes one another in order to improve regional and institutional effectiveness. The regional and institutional competitiveness is understood in this paper in addition to spreading excellence and widening participation of universities and research institutions by how it relates to the necessities of the society and economy.

THEORETICAL FRAMEWORK

The theoretical framework shows, that in the era of globalization and industrialization, clusters and smart specialization strategies are viewed as a source of continued regional development and institutional competitiveness. Both cluster policies and smart specialization strategies are policy approaches with a place-based dimension, aiming at exploiting advantages of proximity to promote economic growth and efficiency. Since smart specialization is gaining its prominence in the EU's regional policy discourse, due to its role in the upcoming new program period of the EU structural policy from 2014 to 2020. It is presume that this concept will probably have a considerable impact in the design, governance and conduct of regional policy in many European regions, that will enable to increase the territorial growth and institutional competence (EC 2013; Benner, M. 2013).

THE POLICY CONTEXT OF SMART SPECIALIZATION

In order to meet the major economic challenges of 21st century the EU has set out its vision by introducing a sophisticated policy design namely '*Smart Specialization*' for facilitating Europe's social market economy in the *Europe 2020 strategy*. This innovative policy strategy aims at stimulating the structural weaknesses through progress in three mutually reinforcing priorities:

- *smart growth, based on knowledge and innovation;*
- *sustainable growth, promoting a more resource efficient, greener and competitive economy;*
- *inclusive growth, fostering a high employment economy delivering economic, social and territorial interrelation.*

Research shows that concept of smart specialization was developed and defined by different academic experts under the EU research and innovation policy framework. Since the potential and implications for introducing policies for "smart specialization" are very different in different regions, the concept has successively been adapted to a more place-based, regional context. According to Pontikakis

et al. (2009) the idea of smart specialization comes from the reflection generated around the innovation "gap" between Europe and the U.S. during the economic crisis. This concept guides the reorientation of European Regional Policy in the context of the Europe 2020 strategy, for obtaining European Research and Development Funds (ERDF) during the period 2014-2020 (EC 2011a and 2011b).

Initially, the smart specialization model is composed by three main elements:

- (a) process consistency on a global context
- (b) prioritization of specific specializing patterns, and
- (c) specialized diversification through the exploitation of regional related variety.

Based on these three elements researcher Del Castillo et al. (2013a) demonstrated 'Smart Specialization' as a strategic governance process that focused on "prioritizing the diversified specialization, consistent with the historical heritage and capabilities of the region taking into account the constraints and opportunities of the global economy." Likewise, Varblane (2009) pointed out that the impression of smart specialization policy came in to consideration, when there arise a threats that a large part of EU, e.g. new member states, would be left without the possibility to develop their R&D capacities. Then, as a possible solution, the EU think tank "Knowledge 4 Growth" (K4G) has proposed the idea of "smart specialization" is to ensure an effective use of public funds. Based on the understanding of regional strengths, regions are expected to concentrate resources to a few key priorities rather than spreading investments thinly across areas and business sectors.

CLUSTER APPROACH AND CLUSTER INITIATIVES

Similarly, in the past two decades the role of clusters have become an explanatory elements of regional economic development that has largely depict on two theoretical assembles. Out of them one is "industry cluster" and the other one is "systems of innovation". The literature on cluster may be traced back to Alfred Marshall's identification of external economies in "localized industries"- where resources are easily accessed and better information is readily available. 'Industry Clusters' are being clinched by companies to compete collaboratively, to gain competitiveness to enter in to the global market (Vazquez, Vaillancourt, 2008).

The main roles of clusters are as follows:

- (i) To bring together the similar companies located in geographical regions,
- (ii) To develop initiatives,
- (iii) To promote growth.

The cluster concept was particularly triggered by Porter, Enright and several other economists in different period of time where, their keen intension was to improve the firms' competitiveness that stimulate the regional growth (Das et al., 2008). According to the contemporary father of the concept Michael Porter (1998), 'cluster' can be defined as "geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related sectors and related institutions (e.g., universities, R&D institutions, trade associations etc.) in fields that compete but also cooperate." Later on Porter (2000) mentioned that cluster strength is based on several interacting factors that are grouped into four headings, and arranged in a four dimensional diamond metaphor: firm strategy, structure and rivalry; demand conditions; related and supporting industries; and factor conditions. In short, it can be said that clusters are a common certainty in all economies and have conventionally been equated with cities that focused on smart specialization which play an important role, in the process of application and monitoring (Asheim, Cooke and Martin, 2006; IPTS 2012).

While analyzing the role of clusters that increase competitiveness and territorial growth we cannot ignore the cluster initiatives too. According to Solvell et al. (2003), the cluster initiative can be said as an organized effort that focused on the increase of growth and competitiveness of a cluster in the region through the participation of cluster companies, government, and/or research community. On the other hand, Andersen et al. (2006) and Solvell (2003) have found, clusters and cluster initiatives are supported by governmental and regional institutions in a number of countries, mainly in the following form: Where -

- informational support and education by means of “Guides”, seminars, and conferences,
- grants supporting mapping of potential clusters,
- grants supporting the implementation of selected projects.

Moreover, it is necessary to mention that both the cluster and the cluster initiative are subject to changes in the competitive environment. According to the researcher Rosenfeld (2002) and Swann et al. (1998), clusters are seen to evolve in a sort of life cycle consisting of embryonic, growth, maturity and decay stages. On the other hand, Del Castillo et al (2011) stated that these stages determine their role and their reach in policy and regional dynamics that has a great influence on territorial competitiveness enhancement.

RESEARCH METHODS

This study is primarily based on a combination of both empirical evidence and inductive reasoning. Empirical argument depicts method of gaining the knowledge, whereas, the inductive argument shows some degree of support in the form of probabilistic reasoning and the basis of most scientific theories.

Definition of a cluster used in this research

The definition of “a cluster” has been narrowed for the purpose of this study. The main goal of this research is not an examination of (Porter’s) natural clusters’ functioning. Thus, it emphasizes primarily on those clusters concept, which can be classified as having a “cognizant development”, i.e. clusters, which are consciously managed and organized (institutionalized). In another way, clusters which provide a conceptual framework, to describe as well as to analyze the important aspects of modern economies. The reason for the narrower definition is accepted in the fact that it is possible to be compatible with the conceptual underpinnings of the smart specialization strategy (S3) approach, which is a programmatic framework to guide cluster development policy. Clusters and S3 share many similarities in their rationale: Such as both cluster and smart specialization (i) focus on productivity and innovation as key drivers of competitiveness; and (ii) fostering regional embeddedness with a view to capitalize on the advantages of proximity.

In order to complete the study within the specified time frame, the empirical phase of the study has been done on the basis of different academic expert’s opinion under the EU research and innovation policy framework. Comparative study has been done on the basis of preliminary research undertaken by European Commission (EC) and EU Horizon 2020 programme. Where they have attempted to add value through insights that have emerged on the cluster policies and smart specialization strategies. The outcomes of this investigation manifest the approach of cluster initiatives and goals of smart specialization strategies, synergies between their different priorities and aspects that facilitate the regional growth and institutional competitiveness.

RESULTS AND DISCUSSION

The results of this study investigate the potential contribution of clusters and cluster initiatives in the design and implementation of smart specialization strategies. The findings from the evolutionary economics literature, (based on the opinion of the different countries academic experts as well as EU framework) have generally given a comparative overview about the conceptual aspects of clusters, cluster initiatives and the objectives of smart specialization strategies as mentioned below. The below mentioned Fig.1 tries to illustrate that clusters are powerful instruments to foster industrial competitiveness, institutional innovation and province growth due to their intrinsic competence.

Described Fig.1 combines both the place as well as resource-based and positioning views to illustrate the perception of competitiveness (competitive advantage) in association with Cluster and Smart Specialization.

From Fig.1 we can view that how a region and institutions like -universities and research institutions can enhance its competency and value, i.e. competitive advantage if they have a synergy between the cluster initiatives and the smart specialization policy, then the chances of achieving and enhancing competitive advantage is higher.

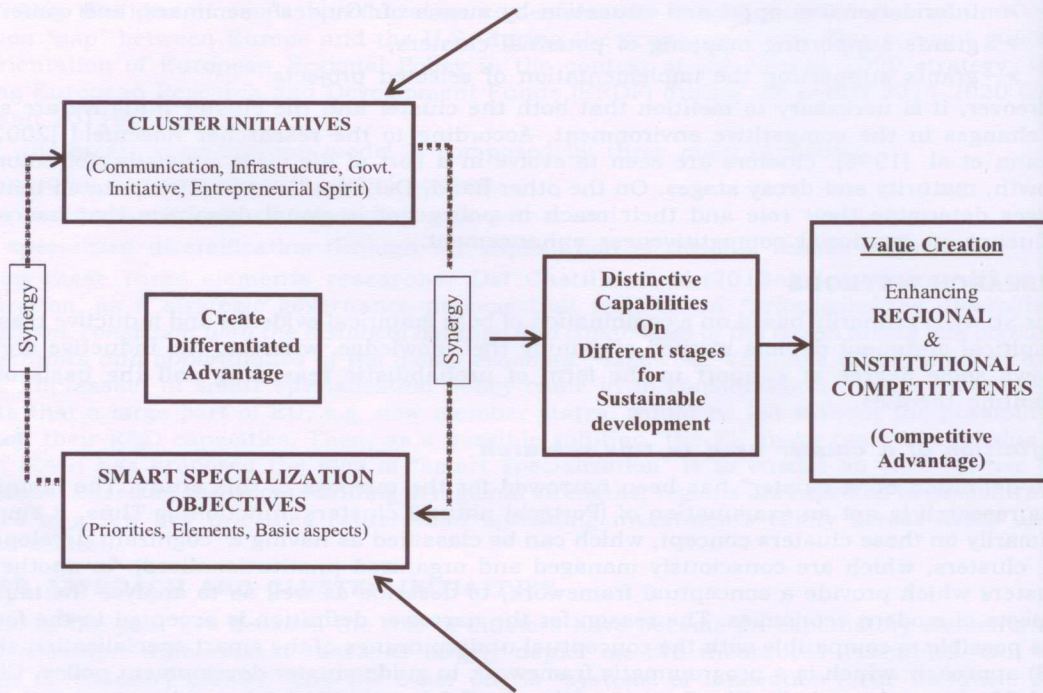


Figure 1: Thematic Model of Regional & Institutional Competitiveness in Relation with Cluster and Smart Specialization (Own interpretation)

Fig.1 clarifies that if the distinctive characteristics and unique competencies of cluster merge together in one roof, then the research institution by smart specialization can find a research "niche" on the international research market that corresponds to the specific needs of the national public or private economy and meets the demands of international economy as well, i.e. is aligned to the levels brought out on the Figure 1. Therefore, based on the above mentioned discussion it can be justified that clusters and smart specialization strategy act as an effective tool for facilitating regional growth and institutional competitiveness; in order to highlight the significance of linking different firms, people, and knowledge at a regional level- are one of the ways of making regions, institutions more innovative and competitive.

SYNERGY BETWEEN SMART SPECIALIZATION STRATEGY AND CLUSTER POLICY

While justifying the reason why clusters should be the part of smart specialization and how there is a synergy between both the approaches it is necessary to highlight that policy makers and economists in many countries both at the national and the regional level believe that supporting and creating clusters is the major way to be competitive and to win the globalization race. According to the Cluster Initiative Greenbook (2003), "the cluster initiative is an organized effort focused on the increase of growth and competitiveness of a cluster in the region with the participation of cluster companies, government, and/or research community."

Furthermore, Del Castillo et al (2013) stated that cluster policy is closely related to the concept and strategy of smart specialization because they share many of their basic conceptual aspects that has been observed in the below mentioned Tab. 1 which, represents the summarized description of clusters and smart specialization's link and compared the basic conceptual aspects of both cluster and smart specialization goals and priorities.

Table 1: Synergy between Smart Specialisation and Clusters (Del Castillo et al 2013).

BASIC CONCEPTUAL ASPECTS	CLUSTERS LINKED TO SMARTSPECIALISATION	SMART SPECIALISATION ADDRESSED BY CLUSTERS
Global context	<ul style="list-style-type: none"> Progressive formation of Global Value Chains 	<ul style="list-style-type: none"> Generation of internationally competitive advantages Interregional networking under a business model
Specialization patterns	<ul style="list-style-type: none"> Generation of internationally competitive advantages Interregional networking under a business model 	<ul style="list-style-type: none"> Critical Mass (agglomeration economies) Efficiency and effectiveness of public policies (leverage) Systemic performance
Related variety	<ul style="list-style-type: none"> Dynamics of intercluster collaboration 	<ul style="list-style-type: none"> Exploitation of related variety based on specific priorities "Spill-over" effects and externalities

However, more specifically it is required to note that the concept of the cluster can be understood as a specification (instrumental approach) within the theory of smart specialization, which is emphasizing the following elements from both of them (Del Castillo et al 2013b). Such as:

- From the *Global context* point of view: clusters are good channels for both the internationalization of enterprises (especially SMEs) and identification of global trends.
- From the *Specialization patterns* point of view: clusters are an indicative reflection of the current and potential regional specialization pattern and cluster initiatives are channels to reach (access) the critical mass they represent
- From the *Related variety* point of view: cluster initiatives facilitate innovative discovery initiatives, where universities and research institutes can stimulate the entrepreneurial spirit.

THE INFLUENCE OF INDUSTRIAL CLUSTER ON REGIONAL GROWTH

On the basis of aforementioned discussion, it can be said that cluster come into sights to accomplish two important functions that has great influence to escalate the human capital as well as to accelerate the regional growth are as follows (Lundvall, 2003):

- Through cluster- competence is built over time in the course of interactive learning demanding proximity and there are increasing returns in the production and use of knowledge
- Through cluster - competence is localized – some of the knowledge is tacit and cannot easily be separate from the cluster - it is embodied in people, organizations and networks.

Therefore the key way to understand the emergence of cluster is to understand the importance of learning and knowledge creation in the economy, which is relevant for what we call low level as well as high level technology areas. As clusters develop regional proximity among firms, institutions, promotes learning and competence building. Where they will attract similar and related firms because they want to exploit the common knowledge base and take part in the

interactive learning that takes place. Fig.2 shows how high quality human resources, technological knowledge advancement, the infrastructure of transit and communication, government's guidance and the chances available has a great influence to strengthen the competitive advantage and to increase the regional development.

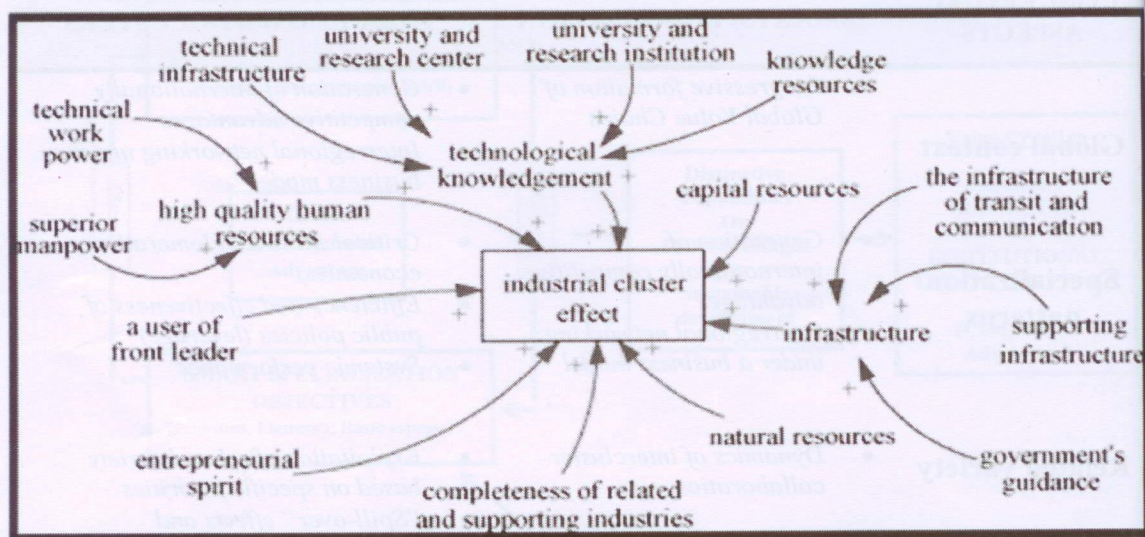


Figure 2: Influence of Industrial cluster on Regional Growth Lin et al. (2006); Saha, N. (2012)

CONCLUSION AND RECOMMENDATIONS

Finally, based on former discussion regarding clusters and smart specialization it is necessary to point out the fact that nowadays, the phenomenon of clusters and the importance of smart specialization concept has been mixed with the perception of territorial development strategy. It seeks to increase the efficiency and effectiveness of economic systems and constitutes a leading concept, which acts as an elixir for the regional economic development and institutional development with the aim of contributing to sustainable development.

In this paper, the empirical evidence shows that the key dimensions of the present business environment are concentrating on proper access to knowledge, skills and technology, where the presence of clustering within the region is considered to be a key player. Thus, cluster notion is the backbone of any regional implementation and monitoring of the new RIS3 strategies that enabling business, institutions to enhance its core competencies through interaction and pooling of information between individuals within an organization or a cluster. It is assumed that the added value of this knowledge development process will lead the territories and organizations to achieve their competitive advantages through the transfer of specific individual knowledge to the collective knowledge, and vice versa. Consequently, the conducted research underlines the importance of a high level of implementation of activities in the area of linking different firms, people, and knowledge at a regional level where the education of HR and cooperation with educational institutions appear as critical factors for the successful regional economic development.

However, from the investigation, it has been observed that to a certain extent both the approaches have significance all over the world the challenge today is not only to improve the regional and institutional competitiveness but also to find out the way how they can enhance their existing resources competitiveness and survive in this dynamic world. Therefore, this research suggested that - clustering approach could be a very challenging and sophisticated approach for the new EU member states territories their research institutions, universities, small and medium enterprises in order to create new business opportunity with worldwide competency;

smart specialization strategy could be supportive for the universities and business to provide assistance in prospectuses design and curricula deliver, to ensure that graduates have the right skills and transversal competences.

Though there remain some gap in the new S3 strategies as: lack of engagement with private sector actors (public sector lead); insufficient analysis of regional assets and possibilities leading to unrealistic expectations; inappropriate transfer of ideas and models from the prototype regions into others; tendency for regional strategies to chase the same sectors and technologies; lack of attention given to trans-regional aspects. Still despite of all these drawbacks this study highlights the essential goals of smart specialization, when provided by a cluster, can support the development of human resources within the universities and in an organization that facilitate them to enhance their institutional performance and to achieve the competitive advantage.

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DEDICATION

The first author dedicated this paper to her only beloved son "Kanishka Binayak Saha".

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