Understanding Cluster Development

What Are Industry Clusters?

"The foundation of a regional economy is a group of clusters, not a collection of unrelated firms. Firms cluster together within a region because each firm benefits from being located near other similar or related firms. The firms in a cluster have common competitive strengths and needs."[1]

An "economic cluster" is a set of businesses, in the same or related field and located near one another, which are linked by service or supplier relationships, common customers and supporting institutions or other relationships. They compete with one another but also complement one another. Overall, however, they draw productive advantage from their mutual proximity and connections, as concluded by a 2006 study on industry clusters conducted by the Brookings Institution.[2] Cluster firms may use similar technologies and/or serve similar markets. They share reliance on regional knowledge and on the regional labor market. In regions where cluster strategies have been employed for economic development, groups of businesses have collaborated through a regional trade association or other network to address common problems, or to lobby or market for the cluster as a whole.

Research by the Council on Competitiveness notes that, in the face of growing global competition, the only sustainable advantage for U.S. regions is continuous innovation. Innovation is the process by which individuals, companies, regions and even entire countries remake themselves in the face of changing markets. It is the driver of productivity growth and, ultimately, of a rising standard of living.
Innovate America: The National Innovation Initiative Summit and Report, Council on Competitiveness, December 2004.

Famous cluster examples include the information technology industry in Silicon Valley, the wine industry in Napa/Sonoma Valleys and more recently, the comprehensive statewide economic development strategy articulated by the Oregon Business Plan project.

Why Cluster Development?

"Properly designed, cluster strategies are a low-cost way to stimulate innovation, new-firm start-ups, and job creation by helping to link and align the many factors that influence firm and regional growth."[3]

"Regional industry clusters – synergistic regional concentrations of industry and related activity in particular fields – represents a powerful source of growth, new-firm starts, and quality jobs at a moment of economic uncertainty."[4]

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[1] Joseph Cortright, *Making Sense of Clusters: Regional Competitiveness and Economic Development*, The Brookings Institution, March 2006.
[2] Joseph Cortright, *Making Sense of Clusters: Regional Competitiveness and Economic Development*, The Brookings Institution, March 2006.
[3] Mark Muro and Kenan Fikri, Job Creation on a Budget: How Regional Industry Clusters Can Add Jobs, Bolster Entrepreneurship, and Spark Innovation. Brookings-Rockefeller, Project on State and Metropolitan Innovation, January 2011.
[4] Mark Muro and Kenan Fikri, Job Creation on a Budget: How Regional Industry Clusters Can Add Jobs, Bolster Entrepreneurship, and Spark Innovation. Brookings-Rockefeller, Project on State and Metropolitan Innovation, January 2011.

One of the central tenets of the cluster-based model of economic development is that the most economically successful regions have managed to knit together companies, teaching and research institutions, and government at multiple levels to create a uniquely competitive industry. Competitive advantage is not created within a single firm alone. Efficiency in internal operations is a necessary but not sufficient condition to compete globally. Factors external to the business, but internal to the regional economic foundation, are increasingly important for the creation of competitive advantage.

In a geographic region where cooperative relationships have not been identified or established, cluster development promotes economic integration and cohesion for an industry through cooperative efforts by business, state and local government, educational institutions, and non-profit sectors for the economic benefit of the entire cluster and the region as a whole. Engaging an industry through active clustering creates informal and formal networking between firms—even competitors—across the cluster, and between firms and their supporting infrastructure. According to the *Governor's Guide to Cluster-based Strategies for Growing State Economies*: "Firms that are part of robust clusters are in a stronger position to compete successfully in the global economy and thus to contribute to regional prosperity."[5]

According to Michael Porter of the Institute for Strategy and Competitiveness at the Harvard Business School, who pioneered the concept of industry clusters, "The development and upgrading of clusters is an important agenda for governments, companies, and other institutions. Cluster development initiatives are an important new direction in economic policy, building on earlier efforts in macroeconomic stabilization, privatization, market opening, and reducing the costs of doing business."[6]

According to Porter, clusters increase productivity and efficiency by providing:
- Ease of coordination and transactions across firms
- Rapid diffusion of best practices
- Ongoing, visible performance comparisons and strong incentives to improve vs. rivals

Clusters stimulate and enable innovations by:
- Enhancing ability to perceive opportunities for innovation
- Improving the presence of multiple suppliers and institutions to assist knowledge creation
- Easing experimentation given locally available resources

Clusters facilitate commercialization:
- Opportunities for new companies and new lines of established business are more apparent
- Commercialization of new products and starting new companies is easier because of available skills, suppliers, etc.

If you would like more information on the Southeast Cluster Initiative coordinated by JEDC, please visit our website: Juneau Economic Development Council: www.jedc.org

If you would like to participate in the Southeast Cluster Initiative please contact JEDC at 907-523-2300 or send an email to clusters@jedc.org.

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[5] Governor's Guide to Cluster-Based Strategies for Growing State Economies. Council on Competitiveness and the National Governor's Association, March 2007.

[6] http://www.isc.hbs.edu/econ-clusters.htm