

# Regional Cluster Strategies

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## What is a Cluster?

Formal definitions may vary, but many experts agree with economic expert and Harvard professor, Michael Porter's definition that a cluster is defined as geographic concentration of inter-connected companies and institutions working in a common industry.<sup>1</sup> In addition, clusters encompass an array of collaborating and competing services and providers that create a specialized infrastructure, which supports the cluster's industry. Finally, clusters draw upon a shared talent pool of specialized skilled labor.

It is important to recognize however, that industry clusters are more than a group of firms within the same industry. The economic cluster model, represents a synergy, a dynamic relationship and a network between not only the companies that comprise a cluster but also the successful partnering of the stakeholders. Government, education, and other supporting organizations vital to a regions economic success represent these stakeholders. Many successful clusters have established a greater competitive advantage and wealth creation for their regions when compared to companies not in a cluster. Given this success more policy makers and regions are considering fostering cluster development as building blocks of regional economies.

## How do Clusters form?

An industry cluster can start in a number of ways. Often a company's access to a labor force with specialized skills, a desirable location, plentiful natural resources, a supportive business infrastructure, or academic research may cause a group of companies to establish or cluster themselves and grow in a region.<sup>2</sup>

In other cases, face-to-face communication of business leaders can lead to cluster development and the creation of conditions that can aid in this process. Accelerating cluster growth and development is possible if business leaders explore the barriers and opportunities in a region that can foster cluster growth. Utilizing this qualitative approach helps to clarify the relationships within the industry and pinpoint specific infrastructure needs. Exploration in successful regions is industry led, has a high level of interactivity and has an ultimate goal of creating new collaborative partnerships between business, government, education, and the community to support the demand infrastructure needs of the industry.

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<sup>1</sup> Michael Porter, *Cluster and the New Economics of Competitions*, Harvard Business Review, Nov. – Dec. 1998

<sup>2</sup> Robert Breault, *The Evolution of Structured Clusters*, Photonics Tech Briefs, May 2000

## Creating a Cluster Framework

While it may take time to create thriving industry clusters, regions can take steps toward ensuring that an infrastructure is established that provides a foundation for cluster development. The Economic Development Administration recommends the following steps in creating a cluster framework that is “demand-driven, inclusive, collaborative, strategic, and value-creating:<sup>3</sup>

1. Mobilize highly committed regional stakeholders and employers
2. Assess existing regional industry clusters
3. Foster collaboration by bringing together participants from key industries and institutions in the region
4. Implement the actions identified as a results of the collaborative process

## Benefits of Clusters

Each region has its own cluster strength. A region that is able to successfully identify and work with its clusters will reap many strategic benefits. When examined from a global perspective Porter explains that regions offer significant competitive advantages. “Regional clusters have the ability to offer local things such as knowledge, relationship, and motivation which can not be matched by distant rivals.”<sup>4</sup> Therefore, regions that foster their local cluster based strengths can reap tangible returns. Job creation and new entrepreneurial innovations are able to flourish in such a collaborative environment. New leaders can develop within this context and continue to drive the networks and alliances of industry that will serve as power brokers within government and the community to continue to evolve a demand-driven framework.

By working with clusters, community organizations and other support services may be able to increase their efficiency and effectiveness by directing services toward larger groups of firms. For example, organizations can enhance an industry's employee retention efforts through their childcare services, transportation services, housing and home ownership programs, and training programs. By working closely with a cluster, the organizations also have the opportunity to build relationships with industry that can facilitate the delivery of their services. Community organizations can work together with industry and public agencies to assist people in moving from welfare-to-work or school-to-work into specific industries with promising futures. By listening to industry cluster needs, economic developers can develop broad strategies to complement existing industries in the area. As a result, regional focus on such local strengths and industries can effectively and efficiently streamline marketing efforts, workforce development and produce greater return on regional investments.

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<sup>3</sup> Information Design Associates. 1997. *Cluster Based Economic Development: A Key to Regional Competitiveness*. San Francisco, CA: Author. A report prepared for the Economic Development Administration.

<sup>4</sup> Michael Porter, *On Competition*, Harvard Business Review Books, 1998.