

CLUSTERS – VALUE ADDED CREATORS FOR SMES

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ABSTRACT: *Clusters support the competitiveness of SMEs and they foster the growth of economies in transition and developing countries. They give enterprises the chance to gain experience and to improve the services they offer. Before forming strategic partnerships, SMEs should evaluate their capabilities and their potential and should take into account the fact that, inside a cluster, SMEs can benefit from the synergy between members that fosters the individual competitiveness. The purpose of this paper is to review the existing literature on creating added value by clustering and to identify the main research tendencies in this area of interest. The study focuses on improving our understanding of the relation between value and capabilities in SMEs partnerships formation inside clusters.*

KEY WORDS: *cluster, Small and Medium Enterprise (SME), added value, competitiveness, innovation*

JEL CLASSIFICATIONS: *L25, L26, L60*

1. INTRODUCTION

The main source of competitiveness of companies is given by trust, solidarity and cooperation between firms (Harrison, B. (1992).

Competition between firms has become more and more fierce in recent years following the globalization process. As a result, SMEs have encountered several opportunities but also threats. Opportunities aim at creating multiple chances to increase individual competitiveness by going through a process of change (Mariana Predișcan (2001) argues that „... organizational change is an action, a set of actions, a process that aims to change, partial or total transformation of an organization, of its component elements or of the processes taking place here, allowing the transition from the present state to a desired future state, which differs quantitatively and / or qualitatively from the first. The objective of organizational change is to establish a new state, instead of the existing one”) and the threats are created by the small size of SMEs, reminders that can bring remarkable competitive advantages if SMEs are to cooperate with other private and public representatives to achieve the synergy effect.

SME representatives have started to prefer collaborations with businesses in the same industry, but also located in the same geographic space. Subsequently, with the development of studies on the support of SMEs development, funding programs for the development of SMEs clusters have emerged. In this regard, clusters have been created in many countries of the world to support SMEs in gaining competitive advantage by disseminating various resources (human, material, informational).

2. CHALLENGES FOR SMES

SMEs (Small and medium-sized enterprises) are defined by OECD in 2000 as „non-subsiary, independent firms which employ fewer than a given number of employees. This number varies across national statistical systems. The most frequent upper limit is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees. Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most ten, or in some cases five, workers. Financial assets are also used to define SMEs. In the European Union, SMEs must have an annual turnover of EUR 40 million or less and/or a balance-sheet valuation not exceeding EUR 27 million.” (OECD, 2000).

SMEs are very specialized in their specific activities. „This increases the importance of effective interaction with other firms and public research institutions for R & D, exchange of knowledge and potential for commercialization and marketing activities.” (Tal A., 2017).

The current business environment in which SMEs operate is characterized mainly by a strong competition, both at national and at international level. „SMEs have gradually become the "engine" of the national economy and human resources occupy a vital position in developing activities.” (Demyen S., 2012)

The European Union aims, based on the Europe 2020 strategy and through policies and programs to support SMEs to create an attractive environment for their emergence and development so that the EU economy becomes „the most competitive and dynamic knowledge-based economy in the world”. As Günter Verheugen, European Commissioner for Industry and Entrepreneurship, said: „ Europe's entire force is involved in supporting SMEs by involving all Europe's resources to support small businesses in their day-to-day work and to pave the way for those who want to create more jobs and develop in Europe and not only.”

Competitiveness is a more and more used concept by economists, which involves the ability to increase market share, profit and value added (Ramasamy, 1995). The low competitiveness in some of the Eastern European countries can be explained by the many problems they face. Much of the products made in these countries are sold at very low prices, and they often resort to intermediate distribution channels, and these markets are rich in imported products. Even the labor force problem is not to be neglected, much of the population in these states is paid with low wages, which is why a part of the population reaches work in more developed countries. People are active in various fields of activity, being one of the basic

resources of companies. The quality of human capital is generally the result of population education and qualification.

The abilities of individuals are sometimes limited due to the lack of knowledge and education. In SMEs, there is often a tendency to engage family members, relatives, friends and acquaintances, although they lack the necessary knowledge for the posts they occupy. Although there are many cases where such companies have not been successful, there is the opposite side, where SMEs have been family-owned businesses passed on from generation to generation and have retained their success over time. Outside the big urban centers in developing countries, the issue of the labor force itself, and not its quality, is a real obstacle. Labor migration is a real phenomenon in some countries, and this is a real problem for SMEs too.

To preserve the competitive advantage, SMEs must cope with competition, not only in terms of quality and price for the services or products offered but from the point of view of knowledge and technology. This has gone from pursuing a traditional competitive advantage to a modern one, creativity and innovation. Competitiveness and implicitly economic growth have as main factor innovation, and this is not only specific to developed countries but has spread throughout the world economy.

Including the OECD recognizes that "innovation (...) is faster and more intense, more closely related to scientific research" (OECD, 2000). Creativity has become an entrepreneurial performance, the strategic approach being focused on identifying resources, capabilities, skills and opportunities. In order for the SME sector to create greater added value in the economy, SMEs are committed to becoming more innovative by creating products with increased added value. Clusters can help SMEs by taking over production and the marketing of these products on a much larger scale, but all of this through the efforts of SMEs to develop their entrepreneurial skills.

3. GAINING ADDED VALUE WITH CLUSTERS

Competitiveness has remained a challenge for the European Union states, the involvement of various actors in different combinations within clusters helping to achieve their strategic objectives. The synergy between cluster members and even more clusters belonging to the same network, or to different networks, can create and enhance their competitive advantage with the implications of SMEs in their component. Cooperative relations between members of the same cluster presuppose cooperation between its companies, especially as innovation develops when combined the competences of all cluster members.

According to Michael Porter, clusters „are new forms of organization (...) that offer advantages in terms of efficiency, effectiveness and flexibility.” He was the first person who offers the first most complex definition of the cluster as „ geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services, and providers of specialized infrastructure.

Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by

skills, technologies, or common inputs. Finally, many clusters include governmental and other institutions--such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations.” (Porter, 1998).

A cluster is a form of innovation in organizing the business space with the potential to add more value than companies adopt a simple collaboration relationship. One of the central processes of adding value within the cluster is the transfer of knowledge. The main purpose of cluster policies in all countries is to increase the level of innovation, R & D and to achieve the clustering benefits of SMEs, start-ups, improved efficiency and added value (EU Best Practice in Cluster Development Policies, 2012).

Separating the cluster term from innovation is difficult to achieve. Innovation comes inside the cluster as a way of expressing an unprecedented experience that can create the network effect in terms of creating added value. Within the cluster, innovative ideas are supported through cooperation and collaboration, often cooperative to create new value for all stakeholder categories. Innovation can often suffer some bottlenecks mainly because of the costs and accumulated knowledge.

Developing countries often face problems such as: the promotion of guarantee instruments is often inadequate, the profit obtained is insufficient to guarantee bank loans and the high innovation cost. Also, within the cluster appears the exemplification of the concept of co-innovation that has become increasingly important in clusters, especially in the context of a very competitive market like the current one.

As more and more people use social technologies to get what they want from other people, rather than through formal channels, such arrangements are missing among the less experienced people. Co-innovation is a platform where new ideas or approaches from different internal or external sources are applied differently to create new value or experience for all stakeholder categories, including for consumers.

The core of co-innovation includes commitment, experience and co-creation of value that is difficult to imitate by competition. The co-innovation platform is built on principles of idea convergence, collaboration agreement and co-creation of stakeholder experience (Lee, S.M., Olson, D. L., Trimi, S., 2012). Organizations find it difficult to survive for a long time if they pursue their own interest, not emphasizing shared value with stakeholders. In this context, we can talk about the commitment of all members, the acquired experience, innovative ideas, and of course the collaboration agreement between the cluster members.

SMEs involved in clustering must make real and useful decisions, considering the widespread availability of competitive and opportunistic information, the development of technologies and the speed of change that is the same for all competitors. To do this, businesses must have well-defined skills to identify, select, collect and process data and information, and transform them into knowledgeable decision-making. Companies also should have a tremendous anticipation capability in the complex and turbulent environment in which they work, proactivity being a challenge not only at the organizational and regional level but also globally.

One of the early forms of a cluster was the industrial cluster as a group of enterprises and non-profit organizations for which cluster membership is an important element of the individual competitiveness of each member firm.

Buyer-supplier relationships within the industrial cluster have led to the formation of the concept of a cluster based on the value chain. A cluster based on the value chain is an industrial cluster identified as an extensive chain of entry-exit or buyer-supplier. This includes final market producers and three levels of suppliers that engage directly and indirectly in trade, consisting of several sectors or industries (Roelandt, den Hertog, 1999). A cluster of the value chain is in line with an industrial cluster as defined by Czamanski and Ablas: "A subset of the industries of the economy linked to stronger flows of goods and services than their association with other sectors of the national economy "(Czamanski, Ablas, 1979). It can also be defined as a potential where businesses can or cannot carry out commercial activities among themselves, but they may eventually take place in the future.

Where entrepreneurial culture is not well outlined, there is a low interest in innovative activities, research and development and partnership. At European Union level, it is trying to support scientific research and the implementation of results that have not been applied before, encouraging performance. Nadvi and Barrientos in 2004, considered clusters as a tool for poverty reduction, especially in extra-urban areas where the informal economy predominates and where SMEs predominantly employ unskilled workers. In their conception clusters are dynamic and engage in increasing the degree of innovation of their products, in switching to activities and functions with higher added value and in disseminating the accumulated experience to increase the competitive advantage. „Fostering public-private partnerships and small-firm networks and clusters may be the most expeditious path to a dynamic SME sector... Clustering facilitates the exchange of personnel and diffusion of technology and creates new possibilities for efficiency gains.” (OECD,2000).

Surely the decision to be part of a cluster is not easy to take. SMEs typically use local resources, have developed a certain attachment to their local business partners. To join a cluster, SMEs can decide pooling resources acquired selectively or wholly, for example only a part of the value chain or the entire chain of the whole company. Depending on the size of the SME, they can contribute to cluster both with activities with high added value (such as research, development, design, after-sales service) and with those that have an added value lower in the value chain (such as manufacturing, processing and basic services).

One of the benefits of belonging to a cluster is that low value-added activities are not outsourced to emerging economies and those with high value to more advanced economies. The small size of SMEs requires material profits not so substantial that does not allow them to create an experience of lending needed to develop, investments do not amount to sufficient values to improve existing technologies (often wear and tear and obsolescence) and not infrequently due to a poor business culture is geared towards creating value-added products or services with little added value.

Once part of a cluster, SMEs benefit from a set of advantages given by what a large company is, namely everything that was considered a disadvantage due to the small size of SMEs is now becoming an asset because it is a part of a large company, and besides, it will not have to remove the two main advantages of a small company, namely specialization and flexibility. According to Schmitz and Nadvi in 1999

„clustering helps firms to ‘overcome growth constraints and compete in distant markets’”.

In its Communication COM (2008) 652 "Towards the setting up of the world level in the European Union - implementation of a comprehensive innovation strategy " the aim of EU is to support the development of clusters as a strategic priority for sustainable economic growth. The communication referred to several ways to promote clusters in the European Union by creating new policies and continuous improvement of existing ones, promoting national and international cooperation within the clusters and by fostering the integration of many small and innovative media in clusters.

Through the same document, the European Commission is committed to supporting Member States in formulating clustering policies, ensuring communication infrastructure at European level, supporting cluster integration of innovative SMEs but calls on Member States to adapt national policies to European ones, to support the involvement of SMEs in clusters in line with the recommendations of "smart specialization" and to engage in ensuring synergies and complementarities between clustering policies.

4. CONCLUSIONS

We have noticed that at the level of the European Union, innovative forms of spatial organization of business are at the center of attention, many bodies being actively involved in establishing clear concepts to support the future direction of member countries.

It should be remembered that a simple association of companies operating in the same sector or geographical area is not a guarantee of their success. Very often, it is happening that this type of business is not willing to share information or to carry out joint activities. This is often due to the lack of confidence that develops against the background of possible previous conflicts or even the culture of the country in which these firms operate. However, Don Tapscott specified in 2006 in the paper - *Wikinomics: How Mass Collaboration Changes Everything* (Tapscott, 2006) the fact that even global leaders in their industries have found it necessary to find collaboration partners to design an innovative value chain, combining their core skills with those of other world-class firms. The fact that a cluster allows companies to get closer even if they are operating in the same industry, or in related fields, facilitates the creation of relationships.

Clusters are constantly looking for durable solutions for their businesses, interactions that go beyond the cluster value chain become evident. Of course, the specialization of a company in a particular branch may cause the need to identify another within or even outside the cluster if the entire economic agglomeration is focused on a single industry if the market requires integrated products and services.

It is not enough to have competences and a high level of creativity, a very important role for SMEs is to coordinate all of this in a way that brings competitive advantages, perhaps through interconnectivity between the activity sectors and innovation.

The ability of companies within a cluster to cooperate with the outside grows as there is easy access for outsiders to engage in cluster activities. Including public authorities, special attention has been paid to this type of cooperation not only at the national and European level. Collaboration between cluster members allows them to make innovations that would have been individually difficult to build. Thanks to the collaboration and physical and communication proximity between cluster members, it is much easier for them to do incorporate downstream or upstream knowledge into the value chain and thus bring competitive advantage within the cluster.

The main advantage of innovation co-operation is given at cluster level precisely by the relations between the members, not only cooperating but also through competitive relationship, the desire to overcome the rivals' performances giving rise to cooperative innovation.

Clusters become real learning communities for SMEs, and this is one of the main competitive advantages for small businesses. In this context, they can have the ability to adapt themselves to changes faster than the companies uninfluenced by research and innovation.

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