

# Technology of developing clusters: the Indian experience

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*A private sector led process in a framework of public-private partnership*

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NATURAL presence of micro or small and medium enterprises (MSMEs) in clusters is an age-old phenomenon. Analysis of benefits of such agglomeration is also not new. In the late 19th century, economists observed that SMEs producing a typical product in a cluster could realise economic gains through inter-firm division of labour and the evolution of conducive local industrial atmosphere in the process.

During the late 20th century, analysis of SME clusters of the "Third Italy" and various other performing and non-performing clusters in other developed and developing economies found that while presence of external economies is but natural in clusters, excellence of a performing cluster could be explained by the presence of a phenomenon of "proactive joint actions" that break down "risky" business initiatives into "small risk able steps".

With around 400 SME and over 3,000 handicraft and handloom clusters, the scope for promoting SMEs in clusters assumes high significance in India. In 1996, Unido launched a cluster development programme in India to put the above theories into practice and create a methodology of "inducing development" in an existing cluster.

The process of cluster development evolved from the principles of "inducing joint action" through networks of firms in a few select clusters; which led to typical combinations of business gains—increased turnover and exports, quality improvement, cost savings, higher in-

vestment and improved business infrastructure for the firms. This empowered their networks to continue to take such joint actions in the future.

The process of cluster development starts with a "diagnostic study." This not only identifies the problems and prospects, but more importantly, finds the opinion makers, the leaders, the interest groups and the implementers among the stakeholders, who will actually translate the identified vision and action plan into reality.

Then follows a phase of trust building. Here the cluster development agent (CDA), representative of the agency that

graduation for a pharmaceutical cluster, creation of business infrastructure for a textiles cluster or technology upgradation for a rice milling cluster.

It then slowly spreads over various other related issues that emanate naturally due to progress made in any one aspect of development as identified by the "pressure point". The local networks own these joint activities.

The entire process is done with the support of various local and non-local government and non-government technical and financial institutions. A constant process of monitoring and evaluation of the entire cluster development process

the possibility of division of deliverables from it.

The maturity of the network also matters. The more mature a network, i.e., higher the level of trust among the firms in a network based on previous experiences of joint action, higher is the probability of joint action being organised. Hence, for a network, successful and simple joint actions build up propensity to go for complex joint actions.

It is very important to start with relatively simpler activities and slowly move towards more complex joint actions. Above all, it is very important that the firms must see direct or indirect business benefit before investing in joint actions. Thus, it is advisable to break down complex and long-run actions into smaller deliverables, to which firms can easily relate.

The role of "illusive" business development service providers with an attitude of working with MSMEs is very important in up-scaling the process. Every stakeholder, even the "middlemen" who add true value, play a critical role and should therefore be encouraged, rather than being replaced. The presence of a full-time CDA in the cluster, and having some degree of financial and technical decision-making power are also a must.

The process slowly builds up the social capital of the cluster that rests with the networks that have been created and energised. The outcome is a private sector led growth process within a framework of "public-private partnership".

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**The process of implementation starts with pressure points and slowly spreads over related issues that emanate naturally. The local networks own these joint activities. While a group of firms cooperate in jointly finding new markets, they can and do compete with each other, perhaps in striking business deals with potential customers**

initiated the process, builds trust with and among the cluster stakeholders and helps create informal/ formal agreements among various networks of stakeholders on initiating joint activities as defined by the demand generated "Action Plan". This process of trust building that starts with interactions and small results, builds up momentum during the process of implementation.

The process of implementation starts with "pressure points." This can involve finding new marketing avenues for a handloom cluster, quality up-

guides the developments.

It must however be emphasised that the process of cooperation is not all pervasive. While a group of firms cooperate in jointly finding new markets, they can and do compete with each other, perhaps in striking business deals with potential customers. Hence this is a process of competitive cooperation, i.e. cooperate where you can and compete where you must.

The propensity towards a joint action grows with the chances of business gains from that joint action and