OUTLOOK ON EUROPE

'BEST PRACTICES' AND THE DILEMMA OF REGIONAL CLUSTER POLICY IN EUROPE

GERT-JAN HOSPERS

University of Twente, School of Business, Public Administration and Technology, PO Box 217, 7500 AE Enschede, the Netherlands. E-mail: g.j.hospers@utwente.nl.

'The variety of the small European continent is great', observed the geographer Gottmann in 1954. Now, half a century later, it seems that the great diversity within Europe is challenged more and more. The fact is that the European Commission propagates the use of 'best practices' in the field of regional policy (e.g. EC 2001, 2003; Martin 2005). Borrowing successful policies from elsewhere is seen as a means to speed up European regional development and achieve it at lower cost. This EU-driven trend of benchmarking leads to the set-up of regional policies with similar objectives, instruments and policy concepts. Everywhere in Europe policy-makers claim to aim for 'regional competitiveness' by creating 'framework conditions' for the formation of 'high-tech clusters'. Thus, authorities hope to be able to copy the success of well-known 'best practices' of regional clustering as found in for example California (US), Bavaria (Germany), Sophia-Antipolis (France) and Oulu (Finland). Porter (2000, p. 254), one of the leading advocates of cluster policy, defines a cluster as 'a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities'. Fuelled by the work of Porter and other experts (e.g. OECD 2001; Cooke 2002) especially regional 'high-tech clusters' in the field of information-, bio- and nanotechnology rank high now at policy agendas.

In theory, it must be said, 'best practices' of regional clustering have much to offer for policy-makers in search for a suitable regional strategy. Framework policy supporting clusters for regional competitiveness seems to be more generic and market-friendly than top-down policies of the past, such as the highly selective growth pole policies (Cooke 2002). Regional cluster policy, however, still implies a form of targeting. First, there is some selectivity ingrained in the concept of 'regional competitiveness' (Reinert 1995). After all, to raise a region's competitive advantage *vis-à-vis* other areas government still has to decide which regional activities get support and which are left to market forces. Second, even if the objectives of cluster policy are generic, the tools used to achieve these goals often implicitly favour certain activities. Public investment in a region's science base or R&D-subsidies simply cannot benefit all clusters, but will always have a bias towards particular parts of the economy (Cowling *et al.* 1999). For example, a biotechnology cluster is more likely to make use of innovation-oriented policy schemes than a traditional cluster (e.g. textiles) where opportunities for renewal are less obvious. Accordingly, also in a cluster-based world, public authorities cannot escape from some kind of targeting.

In this paper we dwell on the need to target today's regional cluster policy and the role of 'best practices' in this respect. In policy terms, there are many possible clusters at choice: after all, groups of interconnected companies and institutions can be found in many economic fields varying from high-tech, low-tech to no-tech.

Tijdschrift voor Economische en Sociale Geografie – 2005, Vol. 96, No. 4, pp. 452–457.

Published by Blackwell Publishing Ltd., 9600 Garsington Road, Oxford OX4 2DQ, UK and 350 Main Street, Malden MA 02148, USA

Given the fact that government cannot facilitate all clusters in a similar manner, our focus is on the question as to how authorities can cope with the dilemma of which clusters to target and which not to. To deal with this issue we first assess the effectiveness of regional high-tech cluster policy that has become so trendy due to the EU-driven propagation of 'best practices'. Then, we explore the viability of regional cluster policy at the other extreme of the economic spectrum, i.e. a policy towards traditional low-tech clusters. Thereafter, we take stock and present an alternative, neo-Schumpeterian type of policy that might be a way-out of the regional cluster policy dilemma. At the end of the paper, this so-called 'new combinations'-policy, which is aimed at the bottom-up development of clusters where global trends and local traditions come together, is briefly illustrated with regional examples from all over Europe.

TRENDY HIGH-TECH CLUSTERS

Dazzled by well-known 'best practices' such as Silicon Valley and the Oulu-phenomenon governments tend to focus on high-tech clusters in their attempts to raise regional competitiveness. In general, high-tech activities such as information and communication technology (ICT), biotechnology and nanotechnology provide the excitement and is something with which politicians hope to score in the public opinion (Drucker 1985). Policy towards high-tech clusters, however, involves at least three dangers.

First, there are no fundamental reasons to believe why policy-makers are better informed than entrepreneurs in assessing the future economic potential of particular regional clusters. As public choice theory makes clear, 'government failure' is as common as 'market failure' owing to massive information assymmetries and strategic behaviour by politicians and bureaucrats (Wolf 1990). Due to the inherent uncertain character of new technologies especially in technology policy, such government failure is likely to occur. There are many examples here (Schilder 2001). A telling example of the lack of public foresight comes from Sweden in the 1960s. Gunnar Lange, minister of trade at that time, compared Volvo's attempt to sell cars to Americans with trying to sell fridges to the Eskimos. Later on, exporting cars to the US turned out to be Volvo's most profitable business. Also French high-tech policy in the 1980s shows the risks of a strategy of picking winners. After five years of subsidising the micro-electronics sector the French had to admit that they had backed the wrong horse. One of the reasons why French high-tech policy failed was the lack of commercial insight among the public elites whose only aim was to make France world-leading in micro-electronics. For a more recent case of public ignorance on technological development, think of the world-wide hype around information technology: to be sure, the impact of this technology is important, but it certainly has not led to the 'new economy' the authorities hoped for (Clarke 2001).

Further, the possibility for areas to reap profits from high-tech clusters may be limited – and not only because high-tech normally offers far less employment than low-tech or no-tech sectors (Drucker 1985). More important than this job argument is the fact that in the European-wide innovation race most regions target similar activities. Usually, public authorities want to run each other close, the consequence being that nearly all of them support the development of regional information-, bio- and nanotechnology clusters. All over Europe it is tried to create 'Silicon Somewheres' now (Hospers 2004). Regions even proudly brand themselves as the next Silicon Valley, ranging from Silicon Glen (Scotland) and Silicon Seaside (Southern Norway) to Silicon Polder (Holland) and Silicon Saxony (Sachsen). However, real regional competitive advantage comes from making a difference, not from doing the same things other regions do. Apart from that, from a European-wide point of view the current bandwagon effect in high-tech cluster policy fosters excessive investment (duplication) in the same technologies. This herd behaviour may lead to overcapacity, bubbles and ultimately a crash in which only the fittest actors survive (Lux 1995). Likewise, by investing in similar technologies and copying 'best practices', regions undermine their potential competitive advantage and should not be surprised that in the end a painful regional shake-out will occur.

Finally, in supporting high-tech clusters authorities often ignore the question whether the preconditions for such clusters are present in the region in question. There are large interregional

differences in starting-position, economic structure and institutional particularities. Thus, what works in one region is not necessarily suitable or feasible for another region. An area, for example, is unlikely to be successful in high-tech without having enough 'absorptive capacity' for new technologies (Cooke 2002). If a region lacks such a 'receiving system', cluster policy may be risky. Castells & Hall (1994) provide compelling evidence that the costs of starting clusters from scratch are very high and that it may take at best a long time before clusters are embedded in the regional economy. One of the examples of extreme policy failure in high-technology clustering is Akademgorodok in Russia. After the model of Silicon Valley this Siberian 'city of science' was built *ex nihilo* in the 1950s. Since then, the place has been languishing for decades. Other cases pointing to the importance of embeddedness in clustering come from Southern Italy and the Ruhr Area (Hospers 2004). Here, ambitious policy initiatives in the 1960s and 1970s were simply rejected by the socio-economic environment. Both the industrial complexes in Sardinia and the high-tech sectors in the Ruhr Area turned out to be disembedded and ended as 'cathedrals in the desert'.

TRADITIONAL LOW-TECH CLUSTERS

In practice, it is not only high-tech activities that policy-makers support in their regional cluster policies. Many regions in Europe are stuck with the heritage of the 'old economy', being of a low-tech or sometimes even no-tech character (Hayter 1997). Due to fierce international competition and declining demand notably old industrial regions specialised in textiles, coal and steel making, ship building, food processing and car production have come into severe difficulties. Although these 'regional champions' often have undergone a restructuring process over the last decades, most of them still obtain aid under the heading of regional cluster policy (Tödtling & Trippl 2004). Is such a traditional low-tech cluster policy a viable alternative to the current trend among policy-makers to copy 'best practices' of high-tech clustering?

Essentially, public authorities do not have to be ashamed for supporting 'old economy'-clusters. In contrast to many high-tech activities these clusters are at least embedded in their environment and usually employ a large number of people (Fingleton 1999). Traditional clusters often laid the foundation for a region's competitive advantage and had the chance to prove their viability for the economy. Examples are coal and steel in Wallonia (Belgium), forestry in Scandinavia, automotive and construction in Southern Germany, watchmaking in the Jura d'Arc (Switzerland), textiles in Northern Italy and the metal industry in the Austrian region of Styria. However, the way in which policy-makers mostly support such traditional clusters is subject to criticism. By doing so, the authorities run the risk of simply 'helping losers'.

For one thing, public policies aimed at low-tech regional clusters regularly pursue a mixture of goals which may hamper an optimal policy response. Political desires to keep regional champions alive are often mixed with aims of restructuring, employment issues and national industrial policy considerations (Hayter 1997). Such multiple objectives of cluster policy are dangerous, as they may conflict and thus rule out the possibility for a clear-cut strategy. A dramatic case is Dutch policy towards regional shipbuilding from the 1970s until today (Van Klink & De Langen 2001). Time after time sound reasons to shrink Dutch shipyards have been overridden by short-term employment thinking, prestige goals to continue the tradition of the Netherlands as a maritime nation and employment aims, e.g. in the northern part of the Netherlands. Since the 1970s, similar mistakes have been made in English regions specialised in automotive manufacturing (Howitt 1996). Also here, the simultaneous pursuing of social, restructuring, nationalistic and economic goals did not work and may explain the decline of the car industry in the United Kingdom – with the automotive cluster around producer British Leyland as a 'worst practice'.

Also low-tech cluster policy often does not cure the underlying problems of the activities targeted. In theory, old industrial clusters may be supported temporarily to be able to revitalise (Tödtling & Trippl 2004). The problem, however, is that starting such subsidies is easier than stopping them. Moreover, subsidy-based policy measures in traditional sectors often do not help firms to restructure, but instead contribute to the maintenance of inefficiencies that these

firms may have accumulated in the past. In this way, they have the chance to become fully dependent on public support (Howitt 1996). Old industrial activities tend to suffer from 'inertia' or 'path dependency', i.e. the tendency to stick to existing patterns rather than to pace up with changing economic circumstances (Hassink 1997). A typical case of this 'subsidy addiction' can be found in Wallonia (Belgium) since the 1970s. Politicians maintained the employment in coal, steel and textiles artificially and thus delayed the reorientation of the region into new activities. In short, traditional cluster policy may frustrate the restructuring process needed for regaining competitiveness. Consequently, traditional clusters may become locked-in and fail to make the connection with new market developments.

TREND THROUGH TRADITION

In these days, regional cluster policy is widely regarded as an area-based strategy that is less pretentious than traditional, more selective regional policies (see e.g. Porter 2000; OECD 2001; Cooke 2002). Inspired by regional 'best practices' policy-makers all over Europe praise regional cluster policy as a horizontal and market-friendly approach aimed at regional competitive advantage. In our view, however, regional cluster policy is as selective as earlier regional policies. The fact is that, in practice, policy-makers still have to focus on particular clusters instead of all clusters in the economy. Due to the propagation of regional benchmarking ('best practices') by the European Commission, authorities often pick winners in high-technology clustering. At the same time, the alternative of supporting regional low-tech clusters is in fact a policy of helping losers. Thus, both high-tech and traditional regional cluster policy involves pitfalls. Roughly speaking, the new economy may be too advanced for a region, while old economy sectors do not seem to offer viable opportunities either. Is there a way out from this dilemma of regional cluster policy?

In our view, policy-makers can escape from the traps of regional cluster policy by focusing instead on original interfaces of local traditions and global trends. It is important to note that the starting point for this alternative cluster strategy should be a region's present economic structure – after all, where regions are going to, always depends upon where they are coming from (Jacobs 1969; Hassink 1997). Even if it may be a trivial statement, the economic perspectives of an area cannot be but somehow connected to its past. Within the structural and cultural specificities of a region governments may try to identify clusters specialising in – to paraphrase Schumpeter's (1912) term for innovations – 'new combinations' of local traditions and global trends. Such global-local interfaces with opportunities for growth may be produced by joining existing economic activities in a region, upgrading traditional industries for the new economy or making use of old industrial knowledges for novel purposes as dictated by economy-wide, structural developments (Hospers 2004). This integration of new, global trends into old, local traditions is quite a job and requires much creativity. At first glance, it is hard, for example, to conceive how heroes of the old economy (e.g. shipyards) could revitalise. In the process of exploring and exploiting such creative global-local interfaces, we think, policy-makers can fulfil a supporting and developing role. Our advice for such a cluster policy of trend and tradition is not just of an academic nature: throughout Europe examples can be found that show how government may help in bridging the gap between high-tech and low-tech clusters. We want to stress that these examples are not 'best practices' but rather 'unique practices', demonstrating only that it is always an area's uniqueness that counts for regional competitiveness.

REGIONAL RENEWAL FROM WITHIN

In Europe several regions demonstrate that a neo-Schumpeterian regional cluster policy aimed at 'new combinations' can contribute to regional competitiveness. Table 1 lists a few examples (see e.g. Hospers 2004; Benneworth 2002 for more illustrations). Regions can rejuvenate their traditional industrial crafts by fostering the introduction of high technology in design, production and marketing. With such a strategy 'new combinations' have been realised in Danish furniture, the Swiss watchmaking network and Italian textiles. Other examples illustrate how the expertise of a declining sector may be exploited for emerging trends. The pop music

Table 1. *European examples of combining local traditions with global trends in regional cluster policy.*

European region (country)	Local tradition	Global trend	New combination
Jutland (Denmark)	Furnituremaking	Quality and lifestyle	Design furniture
Jura d'Arc (Switzerland)	Watchmaking	Marketing and lifestyle	Swatch watches
Emilia-Romagna (Italy)	Textiles industry	High-tech production	Trendy fashion
Manchester (UK)	Heavy industries	Pop music and pop art	Cultural industries
Baden-Württemberg (Germany)	Machine tools	Growing digitalisation	Multimedia devices
Ruhr Area (Germany)	Heavy industries	Experience economy	Industrial culture
North Pas-de-Calais (France)	Clothing sector	Need for convenience	Mail order services
Dunakanyar (Hungary)	Bathing culture	Ageing and health	Health/leisure resorts
Krakow Region (Poland)	Building/painting	Need for maintenance	Restoration services

and art cluster in Manchester (UK) and the multimedia cluster in Baden-Württemberg (Germany) can be traced back to the prior existence of industries whose know-how on advanced materials proved to be useful for the new businesses. In cluster policy, authorities can also take advantage of the trend that demand for consumer services is rising. In North Pas-de-Calais (France) several textile factories have been transformed into mail order firms specialised in clothing, while in the Ruhr Area (Germany) former mines and steel factories are used for tourist purposes ('industrial culture'). Relevant examples of 'trend through tradition' in Central and Eastern Europe are high-tech restoration services in the Polish building cluster and modern health resorts around Hungarian spas.

The experiences described above also suggest ways how to organise the cluster policy we have in mind. As a rule, the area-specific 'new combinations' in these examples have been realised with subnational, bottom-up policies that incited participation from relevant stakeholders in the region (e.g. local firms, residents, business associations, universities and local (semi)public bodies). 'Localisation' of this kind typically empowers all of a region's assets and takes optimal advantage of the creative potential on the spot (Pröhl 1997; Cooke 2002). 'Regional renewal from within' can take various forms. In Jutland, the Jura d'Arc, Emilia-Romagna and Baden-Württemberg the regional government has facilitated the creation of business support and technology transfer centres providing 'real services' (e.g. technological advice and networking events) to the local business community. In Manchester, Dunakanyar and the Krakow Region regional authorities have supported and combined creative ideas of single entrepreneurs and have taken care of the marketing (branding) of the resulting clusters within the region's tourist and business promotion. Finally policy-makers in the Ruhr Area and Northern France have offered regional places of dialogue where the 'collective intelligence' (e.g. local business men, city/business representatives and scientists) can meet to develop new ideas building on unique regional strengths. Together, these examples show the importance of policy action at the subnational level and the need to emphasise regional forces and potentials. They also suggest some key success factors for a cluster policy of 'trend through tradition': regional government can help in adapting the local business community to new requirements of the knowledge and services economy, provide network opportunities, take care of the region-wide marketing and establish regional cluster platforms for creative dialogue.

In Europe, we think, there are many opportunities to find clusters that integrate new tricks with old crafts. In our neo-Schumpeterian view, cluster policy gets a new meaning: regional government may support, develop and brand clusters in which global trends and local traditions come together. For EU policy-making this means that 'best practices' like high-tech clustering in Silicon Valley are of limited use. At best, they can provide some inspiration, but they entirely fail to be recipes for successful regional development. Therefore, we advise the EU to take care with the further propagation of 'best practices' in regional cluster policy. Rather,

we plead for an article in the European Treaty stating that the Commission shall enable enough 'economic diversity' among European regions. In this way, local authorities will be stimulated to attune their clusters to area-specific assets as much as possible. Thus, the search of European regions for the next 'Silicon Somewhere' may be prevented. For Europe's diverse geo-economy encouraging such place-based cluster policies of 'trend through tradition' certainly makes more sense than today's reliance on 'best practices'. Therefore, Gottmann's observation that 'the variety of the small European continent is great' has a double meaning. Indeed: the large diversity of Europe is terrific – and should be exploited.

REFERENCES

Benneworth, P. (2002), Creating New Industries and Service Clusters on Tyneside. *Local Economy* 17, pp. 313–327.

Castells, M. & P. Hall (1994), *Technopoles of the World: The Making of Twenty-First-Century Industrial Complexes*. London: Routledge.

Clarke, R. (2001), *The New Economy Beyond the Hype: the OECD Growth Project*. Paris: OECD.

COOKE, P. (2002), *Knowledge Economies: Clusters, Learning and Cooperative Advantage*. London: Routledge.

Cowling, K, C. Oughton & R. Sugden (1999), A Reorientation of Industrial Policy: Horizontal Policies and Targeting. *In*: K. Cowling ed., *Industrial Policy in Europe: Theoretical Perspectives and Practical Proposals*. London: Routledge.

Drucker, P. (1985), *Innovation and Entrepreneurship*. London: William Heinemann.

EC (European Commission) (2001), *Working for the Regions*, Luxembourg: European Communities.

EC (European Commission) (2003), Seminar 'Competitive Regions – Shaping Best Practice', *Inforegio* 12, pp. 7–8.

Fingleton, E. (1999), *In Praise of Hard Industries*. Boston, MA: Houghton-Mifflin.

Gottmann, J. (1954), *A Geography of Europe*. 2nd edition. New York: Henry Holt.

Hassink, R. (1997), What Distinguishes 'Good' from 'Bad' Industrial Agglomerations? *Erdkunde* 51, pp. 2–11.

Hayter, R. (1997), *The Dynamics of Industrial Location*. Chichester: John Wiley & Sons.

Hospers, G.-J. (2004), *Regional Economic Change in Europe: A Neo-Schumpeterian Vision*. Münster/London: LIT.

Howitt, P. (1996), *The Implications of Knowledge-Based Growth for Micro-Economic Policies*. Calgary: The University of Calgary Press.

Jacobs, J. (1996), *The Economy of Cities*. New York: Random House.

Klink, A. van & P. de Langen (2001), Cycles in Industrial Clusters: The Case of the Shipbuilding Industry in the Northern Netherlands. *Tijdschrift voor Economische en Sociale Geografie* 92, pp. 449–463.

Lux, T. (1995), Herd Behaviour, Bubbles and Crashes. *The Economic Journal* 105, pp. 881–896.

Martin, R. (2005), Regional Policy. *In*: F. Mcdonald & S. Dearden ed., *European Economic Integration*. 4th edition. Essex: Pearson Education.

OECD (2001), *Boosting Innovation: The Cluster Approach*. Paris: OECD.

Porter, M.E. (2000), Location, Clusters and Company Strategy. *In*: G.L. Clark, M.P. Feldman & M.S. Gertler ed., *The Oxford Handbook of Economic Geography*. Oxford: Oxford University Press.

Pröhl, M. (1997), *Local Economic Development*. Gütersloh: Bertelsmann Foundation.

Reinert, E.S. (1995), Competitiveness and its Predecessors: A 500-Year Cross-National Perspective. *Structural Change and Economic Dynamics* 6, pp. 23–42.

Schilder, N.A.C. (2001), *Government Failures and Institutions in Public Policy Evaluation: The Case of Dutch Technology Policy*. Assen: Van Gorcum.

Schumpeter, J.A. (1912), *Die Theorie der Wirtschaftlichen Entwicklung*. Leipzig: Duncker & Humblot.

Tödtling, F. & M. Trippl (2004), Like Phoenix from the Ashes? The Renewal of Clusters in Old Industrial Areas. *Urban Studies* 41, pp. 1175–1195.

Wolf, C. (1990), *Markets or Governments: Choosing between Imperfect Alternatives*. Cambridge, MA: The MIT Press.