Technical assistance to build the capacity of local stakeholders (including business support organisations) and enhance the competitiveness of the private sector – EuropeAid 136143/DH7SER/CY Service Contract 2015/367-156

TAPS

Cluster Management and Governance Manual

Component 2 – Activity 2.2.

October 2016

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DISCLAIMER

1. EXECUTIVE SUMMARY

Clusters play a major role in promoting economic growth, innovation and competitiveness at regional level and are one of the most important pillars for the implementation of smart specialization strategies. Therefore, cluster management is a skill that needs to be acquired in order to unlock the cluster's competitive advantages and maximise their impact on the local economy.

However, given the dynamic life cycle, unique characteristics of each cluster and the complex inter/intra cluster set of relationships that needs to be analysed and mediated, cluster management is not a science but an art that needs to be mastered and refined through an iterative process, which requires a considerable degree of flexibility and intuition, and ability to navigate in an ever changing environment. Therefore, the manual has been structured more like a set of broad principles rather than a fix set of rules in order to enable the user to interpret them individually and start the process to learn the art of adaptive cluster management.
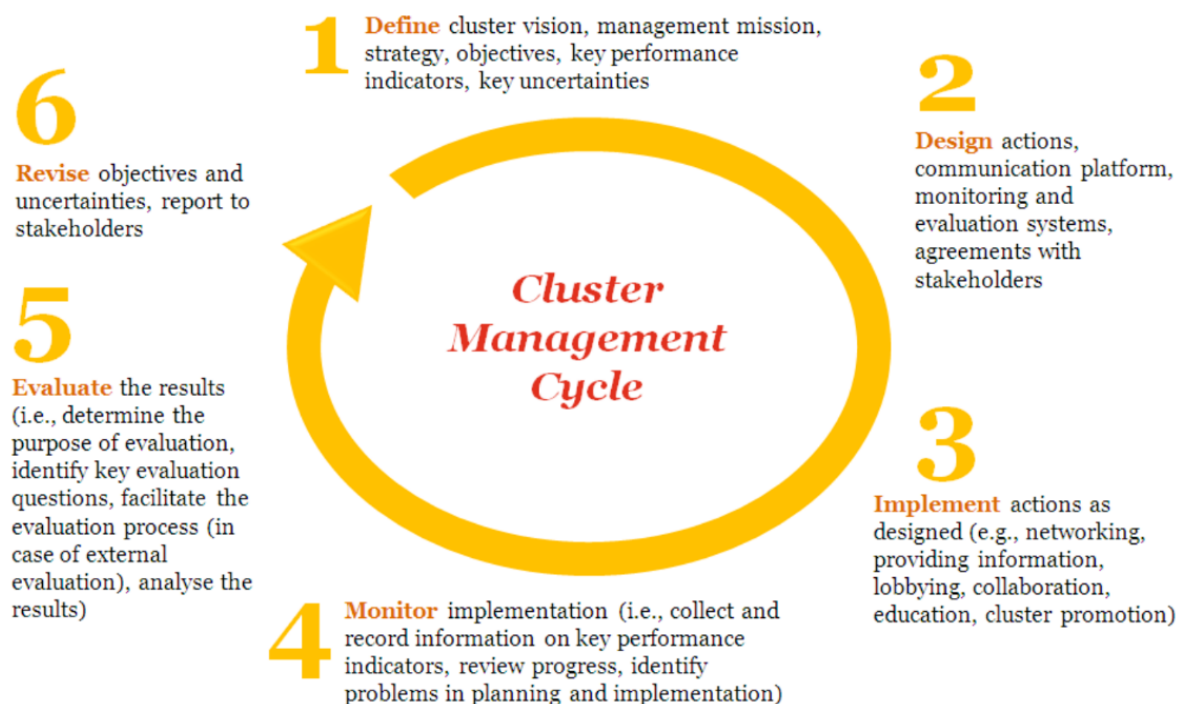
2. PRINCIPLES OF CLUSTER MANAGEMENT

2.1. Cluster Management Cycle

The six main stages of the cluster management cycle are as follows:

1. Define
2. Design
3. Implement
4. Monitor
5. Evaluate
6. Revise

Figure 1 - Cluster Management Cycle

1 Define cluster vision, management mission, strategy, objectives, key performance indicators, key uncertainties

2 Design actions, communication platform, monitoring and evaluation systems, agreements with stakeholders

3 Implement actions as designed (e.g., networking, providing information, lobbying, collaboration, education, cluster promotion)

4 Monitor implementation (i.e., collect and record information on key performance indicators, review progress, identify problems in planning and implementation)

5 Evaluate the results (i.e., determine the purpose of evaluation, identify key evaluation questions, facilitate the evaluation process (in case of external evaluation), analyse the results)

6 Revise objectives and uncertainties, report to stakeholders

2.1.1. Define

This stage requires the clear definition of the vision, mission, strategy and objectives of the cluster.

2.1.1.1. *Defining Cluster Vision*

The Cluster vision is the reference point on which the cluster strategy is based and consists of a short statement broadly underlying the cluster's long-term strategic objectives.

2.1.1.2. *Defining the Cluster Mission*

The mission of the cluster is different from its vision in that the former is the cause and the latter is the effect; a mission is something to be accomplished whereas a vision is something to be pursued for that accomplishment.

2.1.1.3.   *Defining Cluster Strategy*

The Cluster strategy should define the following essential elements:

⇒ Goals
⇒ Scope and rationale
⇒ Competitive advantages
⇒ Resources
⇒ Business Environment
⇒ Stakeholders

The Cluster strategy needs to be harmonised at operative level in a set of objectives as follows:

⇒ Strategic Objectives
⇒ Specific Objectives
⇒ Operational Objectives

Self-Assessment Checklist

Vision, mission and strategy are defined through participative procedures with the key stakeholders.

The Cluster objectives are coordinated with the regional development strategy and they need to be SMART objectives.

The vision, mission and strategy of the cluster are disseminated and communicated externally.

2.1.1.4.   *Identifying Key Risks and Assumptions*

The cluster managers need to analyse all possible risks and assumptions, and evaluate their impact on the cluster strategy indicating the appropriate mitigation strategy for each of the risks identified. Common risks and assumptions for clusters are:

⇒ The continuity of commitment of the key stakeholders
⇒ Financial instability
⇒ Changes in technological and regulatory fields
⇒ External competition
⇒ Market developments

2.1.2.   Design

The design stage is dedicated to implementing the strategy using an operational action plan, including monitoring and evaluation. Moreover, it is also important to develop a formal stakeholder agreement in this section.

2.1.2.1.   *Developing an Action Plan*

An action plan is composed of a group of activities that must be completed in order to achieve the cluster strategic objectives. It contains details of specific actions, and indicates the responsibilities for implementation and the allocation of resources.

2.1.2.2. Communication Strategy

The cluster manager needs to implement an effective communication strategy tailored to the target audience and based on a detailed analysis and mapping the needs and objectives of the key stakeholders in order to gain their institutional support. The strategy should indicate not only the content of the cluster promotion but also the most appropriate communication mechanisms that need to be used.

> **Self-Assessment Checklist**
>
> A well-defined and focused strategy is adopted and implemented consistently and coherently using the most appropriate communication technology.

2.1.2.3. Cluster Agreement

In this stage, the cluster managers need to define the eligibility criteria for cluster membership and prepare a formal stakeholders' agreement, which defines the roles and responsibilities of cluster members. It is advisable to establish a tier system whereas a core group is involved in the daily cluster operations whereas a support group participates to only particular non-strategic activities such as networking and promotion.

> **Self-Assessment Checklist**
>
> The eligibility criteria for membership and the specifications for organisational structure of the cluster are defined and formalised with a written agreement (e.g. cluster governance agreement)

2.1.2.4. Monitoring and Evaluation System

In this stage, the cluster managers have to set up a monitoring and evaluation system using meaningful indicators for all cluster objectives in order to assess the cluster performance. These performance indicators should be:
- ⇒ Easy to collect
- ⇒ Easy to understand
- ⇒ Effective measures of performance

> **Self-Assessment Checklist**
>
> The Cluster should adopt a monitoring and evaluation system based on a sufficient number of performance indicators aligned to the cluster objectives.

2.1.3. Implement

In the implementation stage, the managers should focus on the activities necessary to achieve the objectives defined in the action plan. Although clusters differ, typical activities are:
- ⇒ Strategic Networking
- ⇒ Dissemination of information

⇒ Advocacy
⇒ Training
⇒ Cluster promotion

2.1.3.1. Strategic Networking

Networking is an essential activity for enhancing the cluster performance by creating an institutional network based on strategic partnerships with research and business organisations nationally and internationally. These partnerships need to be based on clear objectives and managed and monitored constantly to make sure that their outputs are in line with the action plan. Other examples of networking activities are organising and attending seminars, conferences and workshops.

> **Self-Assessment Checklist**
>
> ➢ The Cluster has an established network based on well-defined and managed strategic research and business partnerships
> ➢ The Cluster has an established training program for cluster members
> ➢ The Cluster website contains all relevant information regarding the cluster's activities
> ➢ The Cluster has a structures advocacy policy
> ➢ The Cluster is engaged in promotion activities

2.1.3.2. Dissemination of Information

The cluster website, newsletters and an info desk are essential tools for disseminating information and cluster promotion.

2.1.3.3. Advocacy

The advocacy activity of clusters is linked to the need to promote the cluster's interests in policy making process by shaping the agenda with position papers and legislation initiatives.

2.1.3.4. Training

It is imperative that the cluster managers implement regular training activities for members based on the training needs analysis linked to cluster objectives and activities.

2.1.3.5. Cluster Promotion

The promotion activities include:
⇒ Brand design and development
⇒ Press releases
⇒ Media events

2.1.4. Monitor

Monitoring represents a strategic tool for cluster managers, as it provides the base for the evaluation of the cluster's performance.

2.1.4.1.   *Data Collection*

Cluster managers need to collect in a timely fashion, ideally semi-annual, reliable data regarding the indicator's chosen to measure the cluster performance.

2.1.4.2.   *Cluster Review*

The cluster review enables managers to verify the adequacy of the strategy and to make necessary changes in the action plan proactively in order to mitigate the negative impact of unplanned events.

2.1.4.3.   *Problem Identification*

The findings from the cluster review need to be analysed and prioritised according to their impact on cluster performance. The end result should be presented in the shape of a progress report, including the actions that need to be taken to address the main issues affecting cluster objectives.

Self-Assessment Checklist

➢ The Cluster has a well-defined data collection system for performance indicators
➢ The Cluster regularly reviews the progress of its activities in relation to the action plan
➢ The Cluster regularly prepares progress reports including risk mitigating actions

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2.1.5.   Evaluate

Unlike monitoring, which is a dynamic and continuous activity, evaluation is an annual event focused on aligning cluster strategy to the constant changes in the external socio economic environment. The strategic review is an occasion to review goals, priorities and action plans in order to give the cluster activity a new orientation.

2.1.5.1.   *Evaluation*

Evaluation can be either formative or summative. Formative evaluation is based on a detailed analysis of the cluster internal functions and operations in order to assess the cluster performance against the action plan. Summative evaluation is focused on improving the cluster performance in order to maximise the impact of the cluster on regional development.

2.1.5.2.   *Evaluation Methodology*

The evaluation methodology is based on an analytical and participative approach focused on defining and measuring the relevant indicators in terms of the following factors:
⇒ Cluster rationale
⇒ Cluster relevance in the economic regional development process
⇒ Cluster efficiency in using the allocated resources
⇒ Cluster impact on regional economic development

2.1.5.3. *Internal versus External Evaluation*

While internal evaluators have an intimate knowledge of the cluster, its objectives, operational activities and participants, they might lack specific technical skills relevant to evaluation and have a conflict of interest. External evaluators on the other hand are prone to be more objective and professional but certainly expensive.

2.1.5.4. *Evaluation Process*

Cluster manager's role is to facilitate the evaluation process by providing the evaluators with full access to all the relevant information in a timely fashion and to contribute actively with their knowledge and experience.

Self-Assessment Checklist

➢ The Cluster has a well-defined set of indicators for all the objectives
➢ The evaluation takes place yearly
➢ The Cluster managers actively collaborate with the evaluators

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2.1.6. Revise

The final stage of cluster management cycle requires a revision of the objectives and an assessment of risks and assumptions.

2.1.6.1. *Revision*

The findings from the monitoring and evaluation project will be used by cluster managers to review objectives, risks and assumptions at regular intervals.

2.1.6.2. *Reporting to Stakeholders*

The evaluation results, including recommendations will be presented to the stakeholders in order to achieve consensus regarding the strategic and operational changes the need to be made to increase the cluster performance and maximise its impact on the regional economy.

Self-Assessment Checklist

Cluster objectives and action plans are regularly reviewed as a result of the monitoring and evaluation process:
➢ Cluster managers prepare a report with recommendation for stakeholders
➢ The Board of Directors achieve consensus on the proposed strategic and operational changes.

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3. PRINCIPLES OF CLUSTER GOVERNANCE

3.1. Cluster Governance versus Cluster Management

Cluster governance is essential for excellence in cluster management. While cluster management is related to running the cluster current operations, cluster governance is about ensuring that the cluster is well managed in the long-term.

The figure below provides an overview of the key differences between cluster governance and cluster management.

Figure 2 - Cluster Governance vs. Cluster Management

Aspect	Cluster Governance	Cluster Management
Essence	The intended collective actions of cluster stakeholders to advance the cluster and develop a sustainable competitive advantage	The organisation and coordination of the activities of the cluster in accordance with certain strategy, in order to achieve clearly defined objectives
Actors	Triple Helix actors (i.e., representatives of academia, industry, government)	Cluster managers (i.e., professionals appointed by cluster stakeholders)
Responsible entity	Cluster governance board	Cluster organisation
Key responsibilities	Making sure the cluster is well managed: appointing cluster managers, evaluating their performance, developing vision and strategy, approving cluster plans etc.	Managing and enhancing the overall performance of the cluster: carrying out day-to-day cluster activities such as planning, allocation of human and financial resources, monitoring cluster progress etc.

3.2. Cluster Governance and Cluster Life-Cycle

Cluster governance requires the formalisation of relationships among cluster members, and as such is not usually present in the cluster early stage where institutionalization is not a top priority. As the cluster enters its full operational stage the governance structure need to be formalized trough a governance agreement.

3.3. Cluster Governance Frameworks

The key elements of the model refer to the principles shared by the cluster members regarding their participation in the cluster in order to achieve its vision. These values include:
  ⇒ Effectiveness
  ⇒ Accountability
  ⇒ Transparency
  ⇒ Efficiency
  ⇒ Commitment
  ⇒ Responsiveness
  ⇒ Inclusiveness

Figure 3 - Main Elements of the Governance Framework

3.4. Effectiveness

Effectiveness requires the formulation of a clear vision and mission statement and definition of the role of the governance board. The governance process usually begins by identifying membership eligibility criteria, responsibilities and authority. The governance agreement should contain specific terms and conditions related to member withdrawal from the cluster.

Self-Assessment Checklist

The Cluster has adopted a formal governance agreement with definition of duties and managerial authorities

3.5. Accountability

In practice, cluster governance bodies have multiple accountability relationships. Accountability to academia implies cluster's obligation to promote the development of new companies and products from university research.

⇒ Cluster's accountability to industry refers to the cluster's obligation to facilitate access to qualified personnel and offer opportunities to establish collaborative partnerships with both academic and industrial actors.

⇒ Clusters' accountability to government is related to the efficient use of public resources allocated for the cluster activities, as well as the achieved results in term of economic impact.

⇒ Cluster's accountability to the market implies the cluster's social obligation to create added value.

⇒ Cluster's accountability to society, in turn, implies cluster's social obligation to generate products and services leading to a higher quality of life for the whole society.

Self-Assessment Checklist

The Cluster managers have identified various groups of performance indicators developed cluster accountability to different stakeholders.

3.6. Transparency

Transparency requires the cluster managers to communicate openly to the stakeholders through newsletters, reports and website.

Results to be achieved:

The Cluster produces and disseminates regularly reports on cluster progress and organise seminars and workshops cluster activities.

3.7. Efficiency

While the effectiveness of the cluster refers to doing the right things, its effectiveness, in turn, implies doing things right. It is related the transactional costs of clusters, and it refers to the management of relationships within the cluster, motivation and performance of its members, as well as the cost effectiveness of the cluster approach.

Results to be achieved:

The Cluster managers measure the cluster efficiency regularly using the monitoring and evaluation system.

3.8. Commitment

To be successful, a cluster requires long-term commitment from members, managers and stakeholders. Public commitment through cluster support policies and programmes play a crucial role in cluster development, particularly in early stages of the cluster.

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> **Results to be achieved:**
>
> The Cluster has long-term commitment from managers, members and stakeholders.

3.9. Responsiveness

Responsiveness requires the managers to ensure that the cluster objectives and activities are aligned to the present and future needs of its key stakeholders.

> **Results to be achieved:**
>
> Cluster objectives and activities respond to the present and future needs of its key stakeholders.

3.10. Inclusivity

In order to ensure inclusivity in cluster governance, the cluster structure has to allow equal participation equal treatment and equal rights of all cluster members and stakeholders.

> **Results to be achieved:**
>
> The Cluster organisation has achieved inclusivity and provides benefits member commitment and active participation.

3.11. Consensus

Consensus is the request for the mediation of different interests with the scope of achieving a general agreement on what is the best strategy for the whole local economy and how it can be implemented. This results in a business environment in which is important to foster put partnership, given that responsibility for outcomes is allocated to multiple players. The orientation of the cluster towards consensus implies putting in place a strong system of agreements that define expectations and obligations of various cluster stakeholders.

> **Results to be achieved:**
>
> The Cluster governance agreement defines clearly expectations and obligations of all stakeholders.

3.12. Participation

Participation requires that no stakeholder can be excluded from participation in the cluster activities.