

# Deconstructing Clusters: Chaotic Concept or Policy Panacea?

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## **Abstract**

Over the past decade, there has been growing interest in local industrial agglomeration and specialisation, not only from economic geographers but also from economists and by policy-makers. Of the many ideas and concepts to have emerged from this new-found focus, Michael Porter's work on 'clusters' has proved by far the most influential. His 'cluster theory' has become the standard concept in the field, and policy-makers the world over have seized upon Porter's cluster model as a tool for promoting national, regional and local competitiveness, innovation and growth. But the mere popularity of a construct is by no means a guarantee of its profundity. Seductive though the cluster concept is, there is much about it that is problematic, and the rush to employ 'cluster ideas' has run ahead of many fundamental conceptual, theoretical and empirical questions. Our aim is to deconstruct the cluster concept in order to reveal and highlight these issues. Our concerns relate to the definition of the cluster concept, its theorisation, its empirics, the claims made for its benefits and advantages, and its use in policy-making. Whilst we do not wish to debunk the cluster idea outright, we do argue for a much more cautious and circumspect use of the notion, especially within a policy context: the cluster concept should carry a public policy health warning.

**Key words:** Business location   Clusters   Porter   Chaotic concept   Cluster empirics   Cluster theory   Cluster Policy   The cluster 'brand'

“When I use a word”, Humpty Dumpty said in a rather scornful tone, “it means just what I choose it to mean - neither more nor less” (Lewis Carroll, *Through the Looking Glass*, 1872).

“For an idea ever to be fashionable is ominous, since it must afterwards be always old-fashioned” (George Santayana, *Winds of Doctrine*, 1913).

## **1. Introduction: Clusters and the Reassertion of Location**

In recent years there has been a growing interest in the role of location in the global economy. Some have argued that globalisation is rendering the significance of location for economic activity increasingly irrelevant (O’Brien, 1992; Cairncross, 1997; Gray, 1998). Others, however, espouse the opposite view, that globalisation is actually increasing rather than reducing the importance of location, that it is promoting greater regional economic distinctiveness, and that regional economies rather than national economies are now the salient foci of wealth creation and world trade (Ohmae, 1995; Coyle, 1997, 2001; Krugman, 1997; Porter, 1998; Scott, 1998, 2001; Fujita, Krugman and Venables, 2000). Thus, as the business economist Michael Porter puts it:

In a global economy – which boasts rapid transportation, high speed communications and accessible markets – one would expect location to diminish in importance. But the opposite is true. The enduring competitive advantages in a global economy are often heavily localised, arising from concentrations of highly specialised skills and knowledge, institutions, rivalry, related businesses, and sophisticated customers (Porter, 1998 c, p.90).

At the same time, it is alleged, increasing global economic integration itself leads to heightened regional and local specialisation, as falling transport costs and trade barriers allow firms to agglomerate with other similar firms in order to benefit from local external economies of scale (Krugman, 1991, Fujita, Krugman, Venables, 2000), which in their turn are thought to raise local endogenous innovation and productivity growth (see Martin and Sunley, 1998). For these and other related reasons, it has become fashionable within certain academic and policy circles to talk of the ‘re-emergence of regional economies’ (Sabel, 1989), the ‘localization of the world economy’ (Krugman, 1997) and the rise of a ‘global mosaic of regional economies’ (Scott, 1998).

One of the most influential – indeed, *the* most influential - exponent of this emphasis on economic localisation is Michael Porter, whose notion of *industrial or business clusters* has rapidly become the standard concept in the field. Moreover, Porter has not only promoted the idea of ‘clusters’ as an analytical concept, but also as a key policy tool. As the celebrated architect and promoter of the idea, Porter himself has been consulted by policy makers the world over to help them identify their nation’s or region’s key business clusters or to receive his advice on how to promote them. From the OECD and the World Bank, to national governments (such as the UK, France, Germany, the Netherlands, Portugal, and New Zealand), to regional development agencies (such as the new Regional Development Agencies in the UK), to local and city governments (including various US states), policy-makers at all levels have become eager to promote local business clusters. Nor has this policy interest been confined to the advanced economies: cluster policies are also being adopted enthusiastically in an expanding array of developing countries (see Doeringer and Terka, 1996; Schmitz, 2000; World Bank, 2000). Clusters, it seems, have become a world-wide fad, a sort of academic and policy fashion item.

The more so because the concept has become increasingly associated with the so-called ‘knowledge economy’, or what some have labelled the ‘New Economy’. Norton (2001), for example, argues that the global leadership of the US in the New Economy derives precisely from the growth there of a number of large, dynamic clusters of innovative entrepreneurialism. In the US, Porter is himself leading a major policy-driven research programme to “develop a definitive framework to evaluate cluster development and innovative performance at the regional level” in order to identify the ‘best practices’ that can then be used “to foster clusters of innovation in regions across the country” (Porter and Ackerman, 2001; Porter and van Opstal, 2001). Likewise, the OECD (1999, 2001) sees innovative clusters as the drivers of national economic growth, and as a key policy tool for boosting national competitiveness.

But the mere popularity of a construct is by no means a guarantee of its profundity. Our argument here is that seductive though the concept is, there is much about it that is problematic, in that the rush to employ ‘cluster ideas’ has

run ahead of many fundamental conceptual, theoretical and empirical questions (Held, 1996; Steiner, 1998). Whilst it is not our intention to debunk the cluster idea outright, we do argue for a much more cautious and circumspect use of the notion, especially within a policy context. We begin by asking why it is that Porter's notion of 'clusters' has gate-crashed the economic policy arena when the work of economic geographers on industrial localization, spatial agglomeration of economic activity and the growing salience of regions in the global economy, has been largely ignored.

## 2. Why 'Clusters'?

As Porter admits, the idea of specialised industrial localisation is hardly new. As is well-known, Alfred Marshall, writing at the end of the nineteenth century, included a chapter in his *Principles of Economics* (1890) on 'the concentration of specialised industries in particular localities'. His characterisation of these local concentrations of specialised activity was cast in terms of a simple triad of external economies: the ready availability of skilled labour, the growth of supporting and ancillary trades, and the specialisation of different firms in different stages and branches of production.

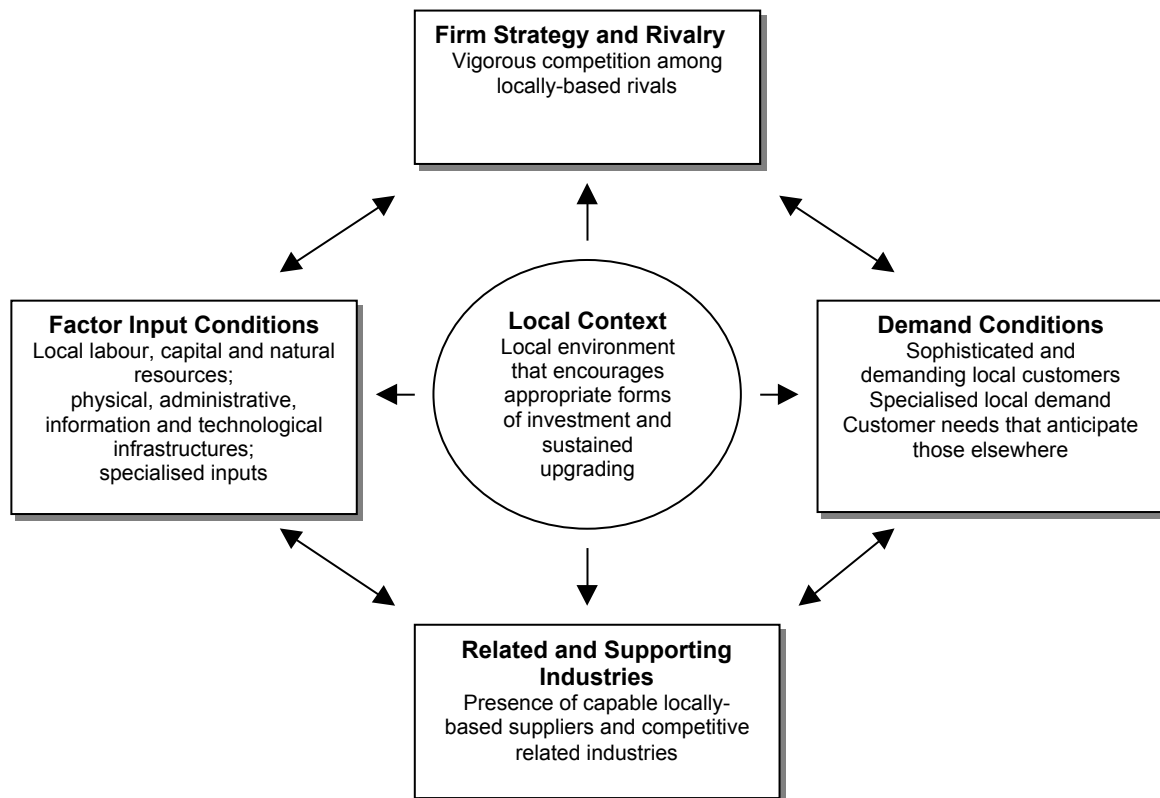
A century later and Porter's neo-Marshallian cluster concept has burst on the scene. Its origins can be traced to his earlier work in the late-1980s and early-1990s on national competitive advantage and international competitiveness, in which he argued that the success of a nation's export firms depends on a favourable national 'competitive diamond' of four sets of factors: firm strategy, structure and rivalry; factor input conditions; demand conditions; and related and supporting industries. The more developed and intense the interactions between these four sets of factors, the greater will be the productivity of the firms concerned (Porter, 1990).

Porter then argued, and this has since become his key theme, that the intensity of interaction within the 'competitive diamond' is enhanced if the firms concerned are also 'geographically localised' or 'clustered'. In his view, the geographic concentration of firms in the same industry is "strikingly common around the world" (1990, p. 120). More specifically, he suggests that a nation's

most globally competitive industries are also likely to be ‘geographically clustered’ within that nation. Hence, what originally started out as a way of decomposing a national economy, the competitive diamond as a group of interlinked industries and associated activities, has become a spatial metaphor, the cluster as a *geographically localised* grouping of interlinked businesses. The

**Figure 1**

**Porter’s Competitive Diamond of Local Industrial Clustering (Based on Porter, 1998, Ch 10).**



competitive diamond is the driving force making for cluster development, and simultaneously the cluster is the spatial manifestation of the competitive diamond (Figure 1). The systemic nature of the diamond produces local concentration of the leading rival firms, which in its turn magnifies and intensifies the interactions between the factors. Hence, according to Porter (1990, p. 157), “The process of clustering, and the intense interchange among industries in the cluster, also works best *where the industries involved are geographically*

*concentrated*”(emphasis added). There is then an obvious affinity between Porter’s schematic ‘competitive diamond’ of local business clustering and Marshall’s ‘triad’ of external economies of industrial localisation.

But Porter’s cluster notion is not the only rediscovery and reinvention of Marshall’s ideas to have taken place in recent years. For the past two decades or more, economic geographers have devoted considerable effort to studying local industrial specialisation, spatial economic agglomeration and regional development, and to identifying the economic, social and institutional processes involved. They too have invented a whole series of neologisms to capture and represent the spatial form and nature of local business concentrations, including: ‘industrial districts’, ‘new industrial spaces’, ‘territorial production complexes’, ‘neo-Marshallian nodes’, ‘regional innovation milieux’, ‘network regions’, and ‘learning regions’ (see for example, Scott, 1988; 1998; Amin and Thrift, 1992; Harrison, 1992; Harrison, Kelly and Grant, 1996; Markusen, 1998; Asheim, 2000). Not only is this corpus of work by economic geographers largely ignored by Porter (and by other economists who have recently discovered geography, such as Paul Krugman), in total contrast to his cluster concept their ideas have singularly failed to have any major impact on policy-makers. Why then has his work proved so fashionable and influential while that of economic geographers has not? Why have some economic geographers themselves started to use cluster terminology in preference to their own (for example, Pinch and Henry, 1999; May, Mason and Pinch, 2001; Scott, 2001; Keeble and Wilkinson, 2000; Keeble and Nachum, 2002)?

One possible reason is that, from the beginning, Porter has rooted and promoted his cluster concept within an overarching focus on the determinants of ‘competitiveness’ (of firms, industries, nations, and now locations). This resonates closely with the growing emphasis given by politicians and policy-makers to the importance of competitiveness for succeeding in today’s global economy. Porter’s avowed aim is to inform companies, cities, regions and nations how to compete on the world stage, and the undoubted lure of his cluster concept is that it sits well with the current preoccupation with micro-economic supply-side intervention, and especially with the policy imperatives of

raising productivity and innovation (Porter, 1996; 1998b,c; 2000a, b, c). As an alleged key determinant of competitiveness, Porter's clusters have inevitably attracted considerable interest, particularly given the emphasis he is currently assigning to geographical industrial clusters in promoting the competitive advantage of the US economy (Porter and Opstal, 2001). Economic geographers' work on industrial localisation and regional agglomeration, on the other hand, has tended to be more diffuse in its aims, and much less concerned with core issues such as the performance, productivity and competitiveness of firms.

A second, and related, reason could be the way in which Porter has conveyed his ideas on clusters. His discussion is framed directly in terms of the economics of 'business strategy', and not in terms of the sorts of more general theoretical debates and concepts - such as 'post-Fordism', 'flexible specialisation', 'modes of regulation', and so on - found in economic geography. The latter do not chime easily with, or translate readily into, practical business and policy strategy. In contrast, Porter's explicit goal "is to develop both rigorous and useful frameworks for understanding competition that effectively bridge the gap between theory and practice" (1998a, p.2). Cluster theory, he argues, is "not only a tool for managers, but also a microeconomic - based approach to economic development for governments that is closely tied to actual competition" (op cit, p. 7).

At the same time, in line with this goal, his easy 'business- and policy-friendly' writing style, at once both accessible and common-sense, is undeniably seductive, and is quite different from the more 'academic' discursive approach that characterises much economic geography writing. Reinforcing this, there can be little doubt that the popularity of Porter's cluster concept, compared to economic geographers' work on similar notions, derives in large part from his celebrated international profile as a business economist. This reputation, combined with his self-confident, authoritative and proselytising style, lends his cluster concept an apparent authenticity and legitimacy that policy-makers have found difficult to resist. In contrast, economic geographers have had much less influence on business policy: indeed the shaping of public policy has,



unfortunately, taken something of a back seat in the discipline's research agenda (Markusen, 1998; Martin, 2001).

But a third, and equally important reason for its rapturous reception is the very nature of the 'cluster concept' itself. Porter's cluster metaphor is highly generic in character, being deliberately vague and sufficiently indeterminate as to admit a very wide spectrum of industrial groupings and specialisations (from footwear clusters to wine clusters to biotechnology clusters), demand-supply linkages, factor conditions, institutional set-ups, and so on, while at the same time claiming to be based on what are argued to be fundamental processes of business strategy, industrial organisation and economic interaction. Rather than being a model or theory to be rigorously *tested and evaluated*, the cluster idea has instead become accepted largely on faith as a valid and meaningful 'way of thinking' about the national economy, as a *template or procedure* with which to decompose the economy into distinct industrial-geographic groupings for the purposes of understanding and promoting competitiveness and innovation. The very definitional incompleteness of the cluster concept has been an important reason for its popularity (Perry, 1999): clusters have "the discreet charm of obscure objects of desire" (Steiner, 1998, p. 1). However, although the definitional and conceptual elasticity of the cluster concept can be seen as a positive strength, in that it permits a wide range of cases and interpretations to be included, we consider it to be problematic. The concept has acquired such a variety of uses, connotations and meanings that it has, in many respects, become a 'chaotic concept', in the sense of conflating and equating quite different types, processes and spatial scales of economic localisation under a single, all-embracing universalistic notion.

### **3. A Chaotic Concept?**

A major source of ambiguity is that of definition. Because Porter's definitions are so vague, in term of geographical scale and internal socio-economic dynamics, this has allowed different analysts use the idea in different ways to suit their own purposes (see, for example, the multiplicity of interpretations used

in the *World Congress on Local Clusters*, OECD-DATAR, 2001). The result is conceptual and empirical confusion.

The dramatist Alan Bennett tells the story of how his aged mother once looked at sheep and said “I know what they are, but I don’t know what they’re called”(Bennett 1994, p. 127). The situation in the cluster literature seems to be the reverse: we know what they’re called, but defining precisely what they are is much more difficult. In his own work, Porter has defined clusters as:

Geographic concentrations of interconnected companies, specialised suppliers, service providers, firms in related industries, and associated institutions (for example, universities, standards agencies, and trade associations) in particular fields that compete but also co-operate (Porter, 1998, p. 197).

Thus, there are two core elements in Porter’s definition. First, the firms in a cluster must be *linked* in some way. Clusters are constituted by interconnected companies and associated institutions linked by commonalities and complementarities. The links are both vertical (buying and selling chains), and horizontal (complementary products and services, the use of similar specialised inputs, technologies or institutions, and other linkages). Moreover, most of these linkages, he argues, involve social relationships or networks that produce benefits for the firms involved. Hence,

A cluster is a form of network that occurs within a geographic location, in which the proximity of firms and institutions ensures certain forms of commonality and increases the frequency and impact of interactions (1998a, p.226).

The second fundamental characteristic, therefore, is that clusters are *geographically proximate* groups of interlinked companies. Co-location encourages the formation of, and enhances the value-creating benefits arising from, networks of interaction between firms.

The obvious problem raised by these cluster definitions is the lack of clear boundaries, both industrial and geographical. At what level of industrial aggregation should a cluster be defined, and what range of related or associated industries and activities should be included? How strong do the linkages between firms have to be? How economically specialised does a local

concentration of firms have to be to constitute a cluster? There is no explicit reference in Porter's definitions that clusters are economically specialised entities in the Marshallian sense, yet all of his examples are, often very narrowly so. In addition, at what spatial scale, and over what geographical range, do clustering processes (inter-firm linkages, knowledge spillovers, rivalry, business and social networks, and so on) operate? What spatial density of such firms and their interactions defines a cluster? The difficulty is not just that the boundaries of clusters, as Porter admits, are 'continuously evolving', as new firms and industries emerge and established ones shrink or decline. More fundamentally, the definition itself seems intentionally opaque and fuzzy.

Cluster boundaries, according to Porter (1998a, p.204), "rarely conform to standard industrial classification systems, which fail to capture many important actors in competition as well as linkages across industries .... Because parts of a cluster often fall within different traditional industrial or service categories, significant clusters may be obscured or even go unrecognised". He refers to the 400-firm medical devices cluster in Massachusetts, which he says has long remained all but invisible, buried within larger and overlapping standard industry categories. In part then, defining the boundaries of clusters appears to be about deriving a detailed reclassification of industries that more accurately reflects the range of specialised economic activity. But then a cluster is also about linkages within and between such specialised activities, about tracing the supply chains supporting what is seen as the 'core' activity of the cluster. So as Porter admits,

Drawing cluster boundaries is often a matter of degree, and *involves a creative process* informed by understanding the most important linkages and complementarities across industries and institutions to competition (1998a, p. 202; emphasis added).

He suggests that "the strength of 'spillovers', and their importance to productivity and innovation determine the ultimate boundaries"; that "cluster boundaries should encompass all firms, industries and institutions with strong linkages", whereas "those with weak and non-existent linkages can safely be left out" (1998a, p.202). Exactly how the 'strength' of different sorts of linkages and spillovers should be measured, and where the cut-off between 'strong' and

'weak' ties falls, are, however, issues that are left unspecified. The existence of clusters, appears then, in part at least, to be in the eye of the beholder – or should we say, creator.

And how does the requirement of 'geographical proximity' enter into the equation? Although throughout his work on clusters Porter emphasises the critical role of 'geographical proximity' in the formation, performance and identification of clusters, the term is never defined with any precision. Indeed, it appears to be highly and ridiculously elastic, for he suggests in fact that clusters can be found at almost *any* level of spatial aggregation: "They are present in large and small economies, in rural and urban areas, and at several geographic levels (for example nations, states, metropolitan regions, and cities)" (1998a, p.204); their geographical scope can even encompass "a network of neighbouring countries" (1998a, p.199). To make matters worse, "the appropriate definition of a cluster can differ in different locations, depending on the segments in which the member companies compete and the strategies they employ" (1998a, p. 205). Such geographical licence has given authors unlimited scope in their definition and application of the concept (see Table 1).

At one extreme, the term has been used to refer to national groups of industries and firms that are strongly linked (in terms of traded interdependencies), but dispersed over several different locations within a country, with no obvious major geographical concentrations (this was in fact Porter's original use of the 'competitive diamond'). At the other extreme, the term is used to refer to a local grouping of similar firms in related industries within a highly spatially circumscribed area - such as the media cluster in Lower Manhattan, New York (Porter, 1998, p. 205), or the film and media cluster in Soho, London (Nachum and Keeble, 1999). In between, Porter refers to 'regional clusters', such as the California agribusiness cluster, and the Massachusetts medical devices cluster. He lists some 60 of these in the US (Porter, 1998.p.229), although in most cases the clusters are far from being state-wide. Elsewhere, 'clusters' and 'regions' are used interchangeably (Baptista and Swann, 1998; Enright 1996, 2001). Thus Enright (2001, p.2) claims that "Regional clustering is

**Table 1. Clusters: The Confusion of Definitions  
(Some Examples Drawn from the Cluster Literature)**

**Porter (1998, p. 199)** "A cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities".

**Crouch and Farrell, (2001, p. 163)** "The more general concept of 'cluster' suggests something looser: a tendency for firms in similar types of business to locate close together, though without having a particularly important presence in an area."

**Rosenfeld (1997, p. 4)** "A cluster is very simply used to represent concentrations of firms that are able to produce synergy because of their geographical proximity and interdependence, even though their scale of employment may not be pronounced or prominent."

**Feser (1998, p. 26)** "Economic clusters are not just related and supporting industries and institutions, but rather related and supporting institutions that are more competitive by virtue of their relationships."

**Swann and Prevezer (1996, p. 139)** "Clusters are here defined as groups of firms within one industry based in one geographical area."

**Swann and Prevezer (1998, p. 1)** "A cluster means a large group of firms in related industries at a particular location".

**Simmie and Sennett (1999a, p. 51)** "We define an innovative cluster as a large number of interconnected industrial and/or service companies having a high degree of collaboration, typically through a supply chain, and operating under the same market conditions."

**Roelandt and den Hertag (1999, p.9)** "Clusters can be characterised as networks of producers of strongly interdependent firms (including specialised suppliers) linked each other in a value-adding production chain."

**Van den Berg, Braun and van Winden (2001, p. 187)** "The popular term cluster is most closely related to this local or regional dimension of networks ... Most definitions share the notion of clusters as localised networks of specialised organisations, whose production processes are closely linked through the exchange of goods, services and/or knowledge."

**Enright (1996, p. 191)** "A regional cluster is an industrial cluster in which member firms are in close proximity to each other."

found in virtually every advanced economy and increasingly in developing countries as well". The confusion is further heightened by other studies that equate clusters and 'cities' (see for example Swann, 1998, page 63). Still others suggest, more specifically, that the proximity inherent in a cluster extends up to a 'range of fifty miles' (May et al, 2001), but such demarcations are obviously quite arbitrary.

The problem is that geographical terminology is used in a quite cavalier manner, depending it seems, as Porter himself admits, on what the aim of the exercise is, or the client or policy-maker for whom the analysis is intended. The key weakness is that there is nothing inherent in the concept itself to indicate its spatial range or limits, or whether and in what ways different clustering processes operate at different geographical scales. We are not suggesting that the cluster concept should refer to a particular pre-specified geographical size or scale; but to use the term to refer to *any* spatial scale is stretching the concept to the limits of credulity, and assumes that 'clustering processes' are scale-independent. If the same externalities and networks that typify clusters do indeed operate at a whole variety of spatial scales, this surely weakens the empirical and analytical significance of the cluster concept.

This lack of geographical precision and consensus is further compounded by the vague typologies of cluster types and evolutionary paths that have been proposed. Porter suggests that clusters "vary in size, breadth, and state of development" (1998a, p. 204). Some clusters consist primarily of small and medium sized firms (he cites the Italian footwear and North Carolina home furniture clusters). Other clusters contain both small and large firms (he gives the German chemical cluster as an example). There are university-centred clusters and clusters with no university connections; clusters of traditional industries and clusters of high-technology industries. There are nascent clusters, new clusters, established clusters and declining clusters. Other authors have sought to construct typologies based on the evolution of clustering processes. Rosenfeld (1997), for example, distinguishes three types. 'Working' or 'overachieving' clusters are 'self-aware' and produce more than the sum of their parts. Latent or 'underachieving' clusters present opportunities that have not yet been fully exploited. 'Potential' clusters have some of the key conditions but lack some inputs and critical mass. This latter type is particularly problematic, since it becomes difficult to exclude almost any firm from a 'potential' cluster, especially when policy-makers are eager not to be left out of the cluster promotion game (indeed, many supposed clusters are 'aspirational' or the product of 'wishful thinking'). In practice, there are probably very few firms that do not have

horizontal or vertical links (co-operative or competitive) of some sort with other loosely-defined 'geographically proximate' firms. Does this mean that virtually every firm could be considered part of a 'potential' cluster? Typologies that employ categories such as 'embryonic', 'latent', and 'potential', come close to incorporating almost all firms in clusters of one type or another, and as such become virtually meaningless. Equally problematic is the tendency to devise typologies that relate specifically and only to the particular set of clusters being studied, with little or no intention to discern elements or features that might be of wider relevance.

The proliferation of cluster typologies may well be a genuine attempt to recognise the diversity of cluster forms and cluster development. But appeals to such diverse forms, sizes, stages of development, emergence, depth, breadth, level of aggregation and the like, is equally an indication that the cluster concept is something of a chaotic one. Porter sees the Italian industrial districts as one form of cluster just as high-technology areas such as Silicon Valley are another. What he calls clusters, French analysts refer to as 'local production systems' (see OECD-DATAR, 2001). Recently, drawing on a survey of European examples, Crouch et al (2001) see 'empirical clusters' as one of three types of local production system, distinct from industrial districts on the one hand and what they refer to as the 'networked firm' on the other. In contrast, in his discussion of the role of regions in the recent competitive resurgence of the US economy, Best (2001) uses the terms industrial districts and clusters interchangeably. And so the confusion goes on. Classification is of course an important stage of theorising and analysis. But to be meaningful and useful, typologies need to be based on in-depth comparative analyses of cluster profiles and processes (Markusen's (1996) typology of industrial districts provides some pointers in this regard). Despite the vast and still expanding literature on clusters, however, there has been little detailed work of this kind.

#### **4. What Sort of Theory for What Sort of Cluster?**

All of which begs the issue of the status of 'cluster theory'. Porter's 'clusters' are *constructs*. They are as much analytical creations as they are

objectively real phenomena. They have no essential self-defining boundaries, whether in terms of inter-sectoral, inter-firm linkages, information networks, or geographical reach. The notion is so generic that it used as a sort of cover term to refer to a whole assortment of types and degrees of specialised industrial localisation (for example, see Porter, 2001). Little wonder, then, that cluster theory is in a similar state of confusion.

According to Porter:

A variety of bodies of literature have in some respects recognized and shed light on the phenomenon of clusters, including those on growth poles and backward and forward linkages, agglomeration economies, economic geography, urban and regional economics, national innovation systems, regional science, industrial districts and social networks. ... Overall most past theories address aspects of clusters or clusters of a particular type. (1998a,p. 207).

While eclecticism can be a virtue under certain circumstances, forging a theoretical synthesis out of this list of perspectives would seem a dubious endeavour. Yet this is what Porter tries to do. He sees his task as “embedding clusters in a broader and dynamic theory of competition that encompasses both cost and differentiation and both static efficiency and continuous improvement and innovation, and that recognises a world of global factor and product markets” (op cit, p.208 ). Porter’s theory of competition is not simply about cost advantages and factor inputs, but also about ‘strategic positioning’ by companies, that is choosing activities that are different from and superior to those of rivals. Essentially, Porter sees a cluster as a self-reinforcing system that stimulates the competitive strategies of the firms in the cluster and hence the ‘competitiveness’ of the cluster itself. He then argues that these processes depend in part on personal relationships, face-to-face communication and social networks (social capital) so that “cluster theory bridges network theory and competition”(Porter, 1998, p. 226). He goes even further: “Clusters offer a new way of exploring the mechanisms by which networks, social capital and civic engagement affect competition” (op cit, p. 227). What is being proposed here, therefore, is nothing less than a general theory of clusters and their socio-economy.



Yet three questions immediately arise. First, just how far can the full complexity of economic, social and institutional factors and processes alleged to underpin cluster formation, development, and success, be reduced to or subsumed within an overarching concept of 'competitiveness'? Second, to what extent is it possible to construct a universal theory of cluster formation, dynamics and evolution capable of covering the wide range of cluster types and processes thought or argued to exist, without degenerating into superficial generalities of the sort that have surrounded industrial districts (see Amin, 2000)? And third, just how far does Porter's cluster theory really illuminate the socio-institutional processes that are alleged to be so important in cluster formation and dynamics?

In Porter's work the notion of 'competitiveness' is used to link a variety of conceptual scales: the individual firm, the industry, the regional or local business cluster, and the nation. For Porter, firms compete, clusters compete and nations compete. He talks of the 'competitiveness of locations' (see Porter, 1998). At the heart of Porter's 'theory of competitiveness' is his longstanding idea of 'competitive strategy', which posits three generic strategies that companies must follow to establish a lead in their market: differentiation (of product or service), cost leadership, and focus strategy (focusing activities on the needs of specific segments of the market). The role of clusters in this theory is that through concentrating the interaction between the elements of the 'competitive diamond' they enhance all three aspects of strategy. But while clustering may well enhance the competitiveness of firms, is this the same thing as talking about the 'competitiveness of clusters or locations'? Locations obviously do not develop competitive strategies in this sense (though many policy-makers seem to believe they should).

In any case, Porter's approach to competition and competitive strategy are far from universally accepted within the business economics, industrial organisation and management studies fields (O'Malley and Vanegeraat, 2000; Jacobs and De Jong, 1992). Several authors have criticised Porter's three generic competitive strategies as being too superficial, for lacking specificity, for being difficult to measure, and for not being as independent of one another, or as universally applicable, as Porter assumes (Miller, 1992; Segev, 1997). As Buckley,

Pass and Prescott (1988) have shown, the notion of competitiveness is highly complex and varies with the economic scale at which the concept is being used. Indeed, yet other economists view the very notion of 'competitiveness' with extreme scepticism. They argue that while the term may have meaning at the level of the firm, it becomes increasingly more problematic as we move up the scale of economic aggregation (see, for example, Krugman, 1994, 1996: Turner, 2001). According to these authors, nations and regions do not compete with one another in the way that firms do, and the analogy between a company and a nation or region is false.

The problem is reinforced, because Porter uses the terms 'competitive advantage', 'competition' and 'productivity' interchangeably. In fact, recently he has directly equated regional competitiveness with regional productivity (Porter, 2002). Certainly, productivity is a key index of regional and local economic performance, and both the measurement and determinants of regional productivity are important topics of enquiry. However, equating competitiveness with productivity is to invite tautology and ontological confusion: is a region more competitive because it is more productive, or is it more productive because it is more competitive? Furthermore, a simple productivity view of regional competitiveness obscures the complex nature of competition itself. As Klein (2001) convincingly argues, Porter's notion is highly restrictive and fails to recognise the several different modalities that competition can assume.

Yet a further complication is that Porter's 'competitiveness theory' of clusters is founded on the assumption that the important clusters are those orientated to external trade. He estimates that these account for about 32 percent of total US employment (Porter, 2002). This is consistent with the view of other observers (such as Krugman, 1996, and Turner, 2001) that in today's highly urbanised world, the bulk of production serves local demand. Unfortunately, Porter confusingly refers to this non-traded aspect of regional economies, which he estimates makes up 67 percent of US total employment, as 'local clusters' (thereby implying that no less than 99 percent of the US economy is clustered!). Not only is it misleading to use the term 'local clusters' to describe non tradable

local services and activities that are found in every urban area, it is also unclear what is meant by competitiveness in relation to such activities. While the productivity or more accurately the productivity growth, of local nontradable activities is critical for local wealth and prosperity, as Krugman (1997) argues, this has nothing to do with 'competitiveness'.

If there are difficulties with clusters in Porter's theory of competitiveness, the generality of his 'cluster theory' adds to the problem. Clusters vary considerably in type, origins, structure, organisation, dynamics, and developmental trajectory, yet Porter's theory is supposedly intended to fit all. It is not clear, however, whether this is because it is assumed that all clusters can be explained in the same way, despite their diversity, or because the highly general nature of the theory is intended to cover all eventualities, allowing analysts to pick and choose different elements to suit different types of cluster. The difficulty is that Porter's cluster model actually combines ideas from quite different perspectives - from agglomeration theory to social network theory - some of which are complementary and others much less so. As a result, empirical observations of clusters and clustering can then be interpreted in quite different ways, thereby buttressing a generalised notion of the benefits of clustering by conflating elements for which there may actually be little evidence with elements to which the evidence more directly relates.

In response to this shortcoming, Gordon and McCann (2000), argue for distinguishing three main cluster models (theories). The first is the 'pure agglomeration economies' model, which they trace from Marshall through to modern urban economic theory, and which emphasises the external economies of geographical concentration (see also, Bellflame, Picard and Thisse, 2000). The second is what they call the 'industrial complex' model, in which clusters are seen primarily as the spatial counterparts of the input-output models of regional economics, as geographical concentrations forged by inter-firm trading links and the minimisation of transactions costs. And the third is the 'social-network' model, which as the term suggests interprets clusters mainly in terms of strong local networks of inter-personal relations, trust and institutionalised practices. Gordon and McCann argue that

Defining analytically which of these types is the dominant structural characteristic of a particular cluster (or set of clusters) is essential, in order to be able to discuss their performance empirically, and to determine what more general lessons may be drawn from that (2000, p. 515).

However, while helpful this tripartite theoretical schema is not unproblematic. For one thing it fails to specify the particular circumstances, economic and spatial, under which one theoretical model should be more applicable than another. To be convincing, cluster theory ought to be able to specify *a priori* how different sorts of cluster are likely to develop under different conditions. Otherwise, explanation is reduced to a 'best-fit' exercise on a case by case basis. Second, as Gordon and McCann themselves acknowledge, these three theoretical models are ideal-types. By their very nature, ideal-typical models never fit reality exactly, and in this case it is difficult to think of a pure agglomeration economies cluster, a pure industrial complex cluster, or a pure network cluster. While Gordon and McCann admit that a given cluster may contain elements of more than one model, nevertheless they insist that

Contrasts in the policy implications of these three ideal types of cluster make it particularly important to avoid confusing features of one with those of another, even though elements of each may co-exist in particular situations (2000, p. 528)

In reality, such co-existence is likely to be the rule. Indeed, what are social networks in this context, other than a particular form of external economy associated with agglomeration?

Porter argues that 'social embeddedness' – the existence of facilitative social networks and social capital – is crucial for the successful functioning and upgrading of clusters. Moreover,

...cluster theory also provides a way to connect theories of networks, social capital and civic engagements more tightly to business competition and economic prosperity... Cluster theory helps to isolate the most beneficial forms of networks .. [and] may reveal how network relationships form and how social capital is acquired (Porter, 1998a, p. 227)

Despite this claim, however, the social dimensions of cluster formation and cluster dynamics remain something of a black box in Porter's work. While he stresses, for example, the importance of local social networks for the production and flow of information and knowledge within clusters, these processes are conspicuously under-theorised in his cluster model. And even in his case study examples, there is little explicit empirical investigation of these social and knowledge networks, which more often than not are simply inferred from the presence of particular formal and informal institutions within a cluster.

The problem of conceptualising and empirically analysing knowledge networks and other 'soft' socio-cultural-institutional features of clusters and spatial economic agglomerations is not, of course, confined to Porter's work. There is in fact an increasing tendency to explain cluster formation and development in terms of local knowledge and 'collective learning' (see, for example, Pinch and Henry, 1999; Hassink, 1997; Steiner and Hartman, 1998, 2001; Keeble and Wilkinson, 2000; Maskell, 2001). The argument is that in a globalised economy the key resources for competitiveness depend on localised processes of knowledge creation, in which people and firms learn about new technology, learn to trust each other, and share and exchange information. The emphasis is on the role of 'tacit' as against 'codified' knowledge, in that the former is viewed as being especially dependent on localised face-to-face contacts and spillovers. Indeed, the assumed link between localisation and tacit or informal, uncoded knowledge is now almost accepted axiomatically (Breschi and Lissonie, 2001). And according to Leamer and Storper (2001) in the new information economy not only is the role of tacit knowledge increasing, this in turn is accentuating the spatial agglomeration and localised specialisation of economic activity.

This local knowledge 'cluster theory' itself faces several difficulties. First, despite the numerous assertions that 'tacit' knowledge is the key to business success, this remains an unsubstantiated and obscure proposition. Not only are the distinctions between different forms of knowledge less clear cut and more fluid than binary divisions such as formal and informal, codified and tacit, suggest (Amin and Cohendet, 1999; Breschi and Lissonie, 2001; Breschi and

Malerba, 2001), it is too simplistic to argue that a given form of knowledge is inevitably linked to one form of geographical socio-economic organisation (clusters) or any one scale of social relationships. Secondly, many accounts refer to localised tacit knowledge without making clear precisely what it is, or how it acts as a source of competitive advantage. More helpfully, Lawson and Lorenz (1999) argue that the key form of tacit knowledge may actually be embedded in firm routines, which guide a firm's innovativeness, problem-solving and adaptability. Ironically, however, the problem here is that the cluster literature, including Porter's own approach, lacks any serious analysis or theory of the internal organization of business enterprise (Best and Forrant, 1996). Instead, it emphasises the importance of factors external to firms and somehow residing in the local environment. In too many accounts local 'territorial learning' is privileged, yet what this process actually is remains ambiguous and its interactions with firm-based learning are left completely unexamined (Hudson, 1999). Related to this, and as May et al (2001) rightly argue, given the current fashion for non-economic explanations, cluster studies often assume that 'institutional thickness' refers to non-firm institutions rather than examining the key institutions of firms and labour markets.

A further, and in our view fundamental, limitation of the current state of 'cluster theory' is that it abstracts clusters from the rest of the economic landscape, so that they often appear as isolated and self contained entities (Breschi and Malerba, 2001). Two things are missing. On the one hand, what is needed is a cluster theory that situates cluster development within the dynamics and evolution of industry and innovation more generally. In effect, Porter's approach is to delimit clusters and then to analyse them as if they are isolated islands in the economy. Not all firms in a given sector of activity need be clustered, and we should also consider the evolutionary trajectories and interdependencies of firms outside clusters as well as those inside clusters. In one of the very few attempts to address this issue, Pouder and St John (1996) draw on a range of theoretical ideas (from institutional evolution, organisational ecology, management cognition, as well as standard agglomeration economies) to construct an evolutionary model of the development of clustered

*and* non-clustered firms. They argue that the economies of agglomeration that initially draw firms together into clusters eventually erode. The competitive strategies of firms in clusters, which are initially highly innovative compared to firms outside clusters, tend to converge (for example through mimetic and normative isomorphism) and to be less innovative over time because cluster firms define their field of competition as the cluster to which they belong, rather than as the wider external industry. This restricted collective perspective gives rise to competitive 'blind spots' which limit cluster firms' innovative potential, strategic positioning, and ability to anticipate and react to industry-wide shocks. Non-clustered firms tend to be less constrained and potentially remain more adaptable to sudden system-wide changes. In effect, these authors sketch out a theory of cluster formation, growth and decline, set against the background of the development of the wider industry as a whole. The very networks of interdependence that were a source of strength in the early phase of cluster formation and growth are hypothesised to become, over time, sources of inertia and inflexibility, relative to the firms outside the clusters. While Porter does refer to potential problems of cluster decline, Pouder and St John's theory assumes that relative if not absolute decline is an inherent systemic feature of cluster dynamics.

By the same token, cluster theory provides a highly partial view of regional development. Not only are clusters only one possible form or source of regional economic growth, they tend to be analysed as if they are separate from wider processes of regional development. Yet while their cluster theory represents an advance over Porter's in this respect, even their approach fails to consider the dynamics of cluster formation and obsolescence within a more holistic theory of uneven regional development. This is where, potentially, economic geographers could make a significant contribution; but unfortunately they seem to have all but abandoned their former interest in theorising the development of the economic landscape as a whole in order to focus too on particular types of region economy (invariably successful regional economies) in isolation from the wider inter-regional system as a whole.

#### **4. Selective Empirics and the Cluster Creation Game**

Obviously, a vaguely defined and theorised concept does not lend itself to easy or precise empirical delimitation. In fact, in most applications the geographical mapping of clusters is surprisingly unsophisticated and stylistic. Whilst Porter's diagrammatic 'flow diagrams' of particular clusters of (up-stream and down-stream) interlinked activities are often detailed, his 'cluster maps' are extraordinarily simplistic and unexplained (for example, see his map of regional clusters of competitive US industries in Porter, 1998a, p. 229). There is no agreed method for identifying and mapping clusters, either in terms of the key variables that should be measured or the procedures by which the geographical boundaries of clusters should be determined. Hence different authors use different types of data and different methods to identify them empirically, with the result that varying claims are made for how many clusters exist and what their geographies are. For example, while Porter (op cit.) identifies and maps some sixty significant clusters in the US, according to the Secretary-General of the OECD, the US contains no less than 380, producing some 60 percent of the country's output (Johnston, 2001). Yet again, while Porter identifies a mere handful in the UK, others claim to identify several dozen (see Crouch and Farrell, 2001).

Empirical methodologies and 'mapping' strategies vary considerably (see Table 2). At one extreme are the 'top-down' national mapping exercises that utilise selective types of data to identify, on an industry by industry basis, particular important localisations of specialised activity or linked activities. At the other extreme are 'bottom -up' approaches that are only concerned with identifying clusters in a particular regional or local area, often in a highly qualitative, impressionistic way. In between are all sorts of combinations. Even top-down studies take different forms. Following Porter's (1990) original major work on national competitiveness, an initial stage in constructing clusters adopted by some authors is to identify first those national 'core' industries that are 'globally competitive', usually defined in terms each industry's market share of world exports, or of world value added. National input-output tables are then constructed to determine the nature and extent of the trading linkages based



**Table 2: Varieties of Cluster and the Cluster Measurement Problem**

Cluster Concept	Conceptual/ Definitional Depth	Empirical Methodology	Ease of Measurement	Empirical Support
Co-location	Shallow	Top-Down	Easy to Measure (Quantitative)	Indirect Evidence
Co-location and Technological Proximity	↓	↓	↓	↓
Input-Output Table and Complementarities				
Co-location and Superior Performance				
Marshallian Externalities				
Network Firms				
Explicit Collaboration				
Informal Knowledge Spillovers	Deep	Bottom Up	Hard to Measure (Qualitative)	Direct Evidence

Adapted from Swann (2002)

around these ‘core’, globally competitive industries. Essentially, this approach to defining ‘national industry clusters’ seeks to subdivide the economy by forming industrial groupings (clusters) linked by particularly strong or distinctive supply-demand transactions. In other accounts, attention is focussed on some other subset of activities, whether they are globally competitive or not (e.g. high-tech industries). In yet others, all of a nation’s industries are examined (see Miller et al, 2001; Crouch et al, 2001). Since inter-industry trade data are rarely available for sub-national geographical areas, in most top-down approaches the cluster mapping exercise itself typically reduces to the mapping of regional or subregional level data on employment and/or number of businesses, or value added, in order to estimate the local significance of the industry clusters being investigated (see Feser and Bergman, 2000).

The drawbacks of such analyses are obvious. Recall Porter’s arguments that clusters typically cut across the sort of standard industrial sector classifications used to collect employment, output and related business data. Yet most top-down (and other) studies have no option but to use data based on such

classifications. To compound the problem, census type geographical data on industrial employment and business populations are collected on the basis of pre-given administrative and political units - such as metropolitan areas and states in the US, and standard regions, local authority areas in the UK, or NUTS regions in the EU - which may bear no close relationship with the geographical boundaries or reach of clusters, however the latter are defined. Moreover, even with a given national context, the size of such regional or local data collecting units can vary substantially. If the spatial units are too large, they can overbound and obscure local clusters. On the other hand, since the degree of local economic differentiation and specialisation tends to increase as the size of geographical units decreases, the use of small area data may exaggerate the number and significance of clusters.

Given the problem of establishing the precise boundaries and composition of clusters, many studies take an easier route. That is, they take relatively large scale geographical units, such as states and regions, and make the highly contestable assumption that sectoral employment totals for these units provide a direct measure of the strength of cluster development in each location. For example, Baptista and Swann (1998) examine the introduction of manufacturing innovations across UK regions and conclude that a firm is more likely to innovate if located in a region where the presence of firms in its own industry is strong, as measured by employment, so that clustering furthers innovation (see also Baptista, 2000; Beaudry et al, 1999). But to what extent can the strength of regional employment in a sector be taken as evidence of the existence of a cluster in that region? In response, Baptista and Swann (1998) assert that agglomeration benefits and externalities become stronger when the geographical level of analysis is reduced, so that using relatively large scale regional data biases against the relevance of spillovers and externalities. This may be so, but this surely does not mean that clusters necessarily exist in regions where employment in any one sector is high. A high regional employment total could surely just as easily reflect the presence of several large, dispersed and unconnected employers within that region. There is also no agreement on what degree of spatial concentration of an industry or industry group constitutes a

cluster. Many studies employ location quotients to measure relative spatial concentration, and high values of location quotients are taken to indicate the presence of clusters. But although these make some adjustment for the varying size of areal units, they do not of themselves discriminate between the presence of a large number of small or medium sized inter-linked firms, and a large single firm employing the same overall number of workers. Associated data on the geographical distribution of individual businesses by size and sector are clearly essential. In addition, how much greater than unity does a location quotient have to be to indicate the existence of a cluster (see Miller et al, 2001)? In some studies, the statistical acrobatics employed to map 'significant' clusters are complex. (see for example Ellison and Glaeser 1997). In other studies, the 'rules' used to distinguish clusters are highly arbitrary (for an example, see Crouch and Farrell, 2001).

The extensive methodologies of top-down mapping exercises can at best only suggest the existence and location of possible clusters: they provide a shallow, indirect view of clusters. They can not provide much if any insight into the nature and strength of local inter-firm linkages (traded and untraded), knowledge spillovers, social networks and institutional support structures argued to be the defining and distinctive features of clusters. Thus a common tendency is to identify clusters in a piecemeal way and then deduce their benefits and effects from the co-variation and co-location of selected variables. As Hanson (2000, p. 481) explains, "The externalities that contribute to spatial agglomeration, such as spillovers between workers, learning across firms, or cost and demand linkages between local industries, are difficult to observe. We are left to infer their existence from the covariance of observed variables such as wages, employment and output." This process of inference has produced some very mixed and inconclusive results, and even when covariance is found it is never precisely clear exactly what type of externality is responsible. For example, there has been a long-running and unresolved debate on whether localisation economies are conducive to higher productivity and employment growth, firm entry and innovation; or whether in fact urbanisation economies are more important and beneficial ( Henderson et al, 1995; Glaeser et al, 1992; Feldman,

2000). Indeed, while Porter believes that urbanisation economies are declining in importance, others suggest that innovative clusters are driven by precisely these economies (Simmie and Sennett, 1999).

In view of these difficulties, it is perhaps not surprising that many studies give up on the idea of identifying clusters directly. Instead, they tend to rely on loose ad hoc, 'bottom up' means of identification (Doeringer and Terkla, 1995). Some analysts simply ask local economic agencies to supply lists of 'local clusters' in their area which are then studied in more detail (for example see Van Den Berg et al, 2000). In many of these instances, however, what are claimed to be clusters often turn out, on closer empirical inspection, to be small and only loosely connected collections of similar or related firms, and sometimes have more to do with local policy aspirations than with realities on the ground. Indeed, some cluster enthusiasts appear to eschew any prior empirical identification of clusters at all, on the assumption that latent clusters are out there everywhere if only their constituent businesses, institutions, and agencies realised it. Thus, for example, according to Cluster Navigators Ltd (one of the increasingly numerous cluster consultancies and promotional bodies):

Our experience is that *extensive analysis is not required to identify initial arenas* [ie clusters] for collaborative engagement [ie between cluster firms and policy-makers]. ...The time for detailed analysis and systematic cluster benchmarking is *after* initial engagement has been obtained, *not before* ([www.clusternavigator.com](http://www.clusternavigator.com), emphasis added).

This putting of the promotional cart before the analytic horse is understandably attractive to cluster consultancies and public policy-makers eager to enter the cluster promotion game. No doubt many (and perhaps Porter himself) would argue that excessive (academic) analysis only leads to policy paralysis; that the detailed structure and workings of a cluster will become obvious soon enough once we begin to think about an activity in cluster terms. But to our minds, such arguments require an *a priori* faith, and compound the difficulties surrounding the cluster concept.

All of which renders many of the claims about the superior performance of clusters of dubious validity. Clusters, it is argued, raise the productivity, innovativeness, competitiveness, profitability and job creation of their

constituent firms, of the geographical areas in which the clusters are located, and thence of the wider national economy. But what is the evidence for these claims? Some advocates assert that the economic advantages of clusters have already been empirically demonstrated (Baptista, 1998; 2000). Even the Secretary General of the OECD states that it has been shown that being located in a cluster raises the profitability of firms on average 'between two and four percent' (DATAR-OECD, 2001, p. 8). A more detached review suggests that the evidence is incomplete, and that far more detailed comparative research needs to be carried out. Much of the evidence used in support of the superior performance argument is anecdotal and based on success stories about particular locations (Malmberg, 1996), and there are few extensive studies which document how common and important clustering is within particular industries (Malmberg and Maskell, 1997), or studies that carefully compare similar firms inside and outside of clusters.

The evidence of a positive association between clustering and innovation is not consistent. One of the few detailed studies that exist, of metalworking across the US by Harrison and others (1996), actually found no evidence that firms in local concentrations adopted new technologies more rapidly than their more geographically dispersed or isolated counterparts. Likewise, in their study of the impact of clusters on firm growth and innovation for a range of industries across Europe, Beaudry, Brechi, and Swann (2000) found the results to be ambivalent. While firms located in clusters that were strong in their own industry tended to grow faster and have higher propensities to innovate, firms in clusters that were strong in other industries did not have faster growth and innovation rates. Moreover, it has not been conclusively shown that regions based on specialised clusters consistently enjoy a higher rate of innovation and economic growth (Segal Quince and Wicksteed, 2001; Steiner, 1998; Rodriguez-Pose, 2001). At the very least, the case that clusters invariably boost business performance and local economic development is not conclusively proven (Best, 2001).

Far from being the general rule and the key missing link in local competitive advantage, the benefits realised from geographical clustering appear

to be specific to certain industries at certain stages of development in certain places, and are only realised under particular conditions (Glasmeier, 2000). For example, Audretsch and Feldman (1996) examined the distribution of commercial innovative activity across the US and concluded that the propensity to cluster is itself greatest in industries with a high dependence on new economic knowledge, as captured by industry and university R and D, and skilled labour. Indeed, the dominant view is now that clustering is most significant in sectors that are crucially dependent on tacit or informal knowledge, often in pre-commercialisation stages (Audretsch, 1998; Keeble and Wilkinson, 2000). But even within high-technology and knowledge-based activities, the significance of clustering has been found to be variable and produced by different processes. Thus, studies of computing in the US and the UK find that employment growth is promoted by own sector employment within particular states, and that firm entry is positively associated with regional employment in only a few subsectors, mainly hardware and components (Baptista and Swann, 1999). A similar study of US biotechnology, however, concludes that firm employment growth has been positively associated with own-sector employment but that firm entry in this case is attracted by the strength of the science base more than by own sector employment with a particular state (Swann and Prevezer, 1996; Prevezer 1997). The common message from studies of biotechnology and aerospace in the UK is that there are signs of clusters only in certain parts of these industries (Prevezer, 1997; Shohet, 1998; Beaudry; 2000). There is no evidence that firms in some biotechnology sectors (for example related to food, chemicals, and agriculture) attract each other, possibly because large firms are able to absorb and internalise any knowledge spillovers. To complicate things further, a study of UK financial services, using the same methodology, found that own sector employment has promoted both employment growth and firm entry, while other-sector employment negatively affects firm growth due to congestion effects (Pandit et al, 1999).

Given that there are so many different ways of identifying clusters, their advocates can always counter any disappointing results or criticism of their findings by insisting that the cluster boundaries or their economic outcomes

have been incorrectly and inappropriately specified and measured. Ultimately, it seems that it is impossible to definitively support or reject clusters with empirical evidence, as there are so many ambiguities, identification problems, exceptions and extraneous factors.

## **5. Cluster Policy: Hard Targets or Fashion Labels?**

Despite these weaknesses, few other ideas can begin to rival the current popularity of the clusters notion amongst local economic practitioners and national and regional policy communities: “It is difficult to identify another equally obscure concept that appeals to such a broad spectrum of academic disciplines, professions and even lay people” (Bergman, 1998, p. 92). Cluster policies fit in well with a growing trend towards the decentralisation of policy responsibility and a focus on the indigenous potential of localities and regions (Temple, 1998). Enright and Ffowcs-Williams (2001) argue that cluster policies should be delivered by the level of government most closely matched to the geographical extent of the cluster (assuming that this can be known). But given that there is so little empirical work which conclusively demonstrates that clustering actually produces increased local economic prosperity, this extraordinary popularity begs explanation. As there is no agreed and shared definition of what a cluster is, it is hardly surprising that there is no one single model for such policy, and cluster labels are often attached to quite different sorts of policies.

In terms of recommendations on best practice, however, there is a consensus that cluster promotion policies are unlikely to succeed in creating clusters *ab initio* (Schmitz and Nadvi, 1999). Rather, they should somehow attempt to build on the potential already present in a particular economy. While this seems sensible advice, it begs the question of what agencies should do if they lack the basis of embryonic clusters. Such a question is not just hypothetical, since it has particular relevance to debates on cluster promotion in lagging peripheral regions in developed economies as well to a wide range of developing countries. No convincing answers are given in the cluster literature. A typical response is to argue that there are few if any regions that have no cluster potential, however limited that might be.

The standard rationale for cluster policies is they can help promote the supply of those local and regional public goods which are absent due to market failure (OECD, 1998; Scott, 1998). Four main varieties of such goods are usually identified. First, cluster policy emphasises the benefits of creating co-operative *networks and encouraging dialogue* between firms and other agencies. In such networks, it is claimed, firms can exchange information, pool resources, design collective solutions to shared problems and develop a stronger collective identity. Thus some cluster policies start by appointing brokers and intermediaries to organise these dialogues. This, it is suggested, can also yield a better co-ordination both between public and private agents and between different public agencies (Lagendijk and Charles, 1999). Second, and related to this, cluster policies often involve *collective marketing* of an industrial specialism, based on place marketing and raising awareness of the region's industrial strengths. Cluster policy typically represents a relatively cheap form of regional policy, but it is one that is able to raise the public relations profile of particular economies. Third, it is also argued that cluster policy should aim to provide local *services for firms* such as financial advice, marketing and design services. A key recommendation is that local service provision should be targeted on particular industrial specialisms so as to ensure that it meets specific local needs. For instance, a widespread aspiration for some high-tech initiatives is to develop links with relevant university research facilities and further the commercialisation of their research. Fourth, it is argued that cluster policies should identify weaknesses in existing cluster value chains and *attract investors and businesses* to fill those gaps and strengthen demand and supply links. In some cases, marketing strategies should target particular types of investor who will add key pieces to the cluster jig-saw.

It is by no means our intention to argue that all of these measures are, in themselves, misguided and of no benefit to local and regional economies. However, what is dubious is whether setting and attempting to implement such policies within a cluster framework actually improves their effectiveness and outcomes. In many cases it appears that the cluster framework is either unnecessary or even constraining. The decentralised promotion of local indigenous economic potential certainly does not depend on a cluster approach.



There are many types of network policy which promote information sharing between firms which do not depend on a cluster framework and remit (see, for example, Cooke and Morgan, 1998). Indeed as Rosenfeld (2001) argues, what has happened in actual fact is that many local authorities have backed into cluster initiatives from pre-existing network support programmes.

The first major problem inevitably encountered by such initiatives is how their boundaries should be drawn. Which firms should be left out? How far up-stream and down-stream of the 'core' cluster activity should policies extend? There is a fundamental tension between the public policy desire to include as many firms as possible and the notion that policy interventions can be more cost effective if they are targeted in some way. But if the policy is too targeted, then it starts to look like old style industrial policy and too close to the discredited notion of 'picking winners'. The tension is nicely captured in this ambiguous advice by Enright and Ffowcs-Williams (2001, p. 5): "A policy on clusters should aim to provide services that all firms merit access to, whether they are clustered or not, but in a more targeted fashion." In the case of generic services, which would benefit all firms, it would seem preferable to drop the cluster framework all together. Moreover, is it really wise to exclude certain firms from 'institutional dialogues', particularly when the future course of local industrial and technological change is so hard to predict and previously marginal firms can become key nodes in the local economy? Indeed, partly in response to this, Danish industrial policy has shifted to using the less exclusive notion of 'resource areas' (see Drejer et al, 1999). The linkages in wider and more diverse networks may well be weaker but they may provide greater long-run local adaptability (Grabher, 1993).

What is clear is that, strictly speaking, most cluster policies do not identify working clusters, but rely instead on more immediately and statistically visible broad industrial sectors. Policy makers are clearly under pressure to find clusters in as many regions as possible for fear of offending some regional interests. The Sainsbury (1999) report on biotechnology clusters in the UK, for example, finds established biotechnology clusters around Cambridge and Oxford, but also identifies earlier clusters in the North West, Surrey, Sussex, Kent, the North East, the North West, North Yorkshire, Wales, London, Central Scotland, Wales; that

is, in almost all regions of the country, even though in many regions the 'clusters' are small and lack the inter-firm linkages and spillovers that are held to be key cluster features. Likewise, in the DTI's more recent general investigation of business clusters across the UK (Miller et al, 2001) there is an obvious political tension between mapping significant industry clusters wherever these happen to be on the one hand (and many are in South East England), and ensuring an even spread between the various Regional Development Agency areas, on the other.

It is hard to avoid noticing the similarity in the types of clusters distinguished by many cluster promotion programme (Rosenfeld, 2001). To some extent this no doubt reflects the enormous practical difficulty of identifying working clusters and the inevitable ambiguities and complexities involved. Faced with this difficulty, many public authorities resort to using the same set of cluster consultancy companies (flying 'cluster-makers'), who are commissioned, often at considerable public expense, to rapidly produce a cluster decomposition of the relevant local or regional economy. We are doubtful that such quick diagnoses are able to identify weak links in local value chains, understand the relevant spillovers and knowledge flows, detect how different industries are developing and anticipate the necessary service requirements. More generally, how should public authorities distinguish market failures in service provision? If firms are not paying for particular services, does this indicate a lack of information or a shared fear of free-riders; or is it because the services are not really needed? Another important ambiguity in the literature is whether policy should aim to differentiate between different clusters and, if so, in what ways. On the one hand, Porter (1995; 1996; 1998a) recommends that policy makers should not try to discriminate between clusters; rather, he suggests that 'it is not what you do but how you do it' that matters, and favouring some clusters is "bad economics". On the other hand, as we have already noted, Porter (1998a) argues in a neo-Keynesian manner that it is outward-oriented (export-based) clusters, rather than those supplying local demand, that are the primary long-run source of economic growth and prosperity. Other authors insist that policy makers should distinguish between clusters according to their growth potential (Fisher and Reuben, 2000), so that responses to survival clusters of micro-scale enterprises with limited competitive potential should be distinctive (Altenburg

and Meyer-Stamer, 1999). A related issue is whether inter-firm collaboration is appropriate in all industries, and to what extent policies can promote both competition and rivalry, at the same time as furthering firm collaboration (see Enright, 1996). How are public cluster sponsors supposed to know when, and on which issues, to encourage knowledge sharing and exchange, and when to urge knowledge retention and proprietary secrecy in order to sustain innovation incentives?

In the context of these uncertainties and questions, it is increasingly evident that policy makers, seeking safety in numbers perhaps, tend to be drawn to promoting similar varieties of 'high-technology, knowledge-based' clusters. But, even assuming that the new knowledge economy has a coherent meaning, it is unlikely that all regions can rely on the same, high-skill, knowledge-intensive sectors. As Keep and Mayhew (1999, pp. 57-8) have argued

While it is relatively straightforward to aspire to the high performance vision when it is applied to some sectors of the economy, it becomes a very much greater challenge when the focus shifts to the economy as a whole. Policy-makers need to guard against the dangerous tendency to seize upon leading edge practice located within a particular sector or competitive environment and then to assume that this can be, or indeed is being generalised across the entire range of economic activity.

Nevertheless, such generalisation or replication is precisely what Porter appears to be currently advocating. His present cluster mapping project across the US is expressly aimed at identifying 'best practice' in successful clusters as a 'blueprint' for promoting innovativeness and competitiveness across regional America as a whole. While successful clusters may well hold lessons for policy practice elsewhere, the idea that there are cluster 'blueprints' that can be readily implemented in quite different local economic, social and institutional contexts is highly debatable. Cluster policy texts also say little about how inter-regional, distribution issues should be approached. If one region implements a new cluster strategy should this be allowed to undermine established clusters elsewhere or should regional clustering somehow be made complementary (DTI, 2001)? Porter (1996) argues that regional authorities should avoid "smokestack chasing" as using tax incentives and subsidies to bid against each other to attract

key inward investors produces a zero-sum competition. Yet, in practice, cluster policies are surely likely to encourage just such a process.

What is striking is that in much of the literature on cluster policies, there is no real reason why place marketing and the advertising of industrial specialisms really needs to be tied to a 'cluster' label of doubtful relevance and content. There is no reason why co-ordination between different policies and groups should be handicapped with a confusing cluster framework, or why the provision of demand-led, productivity enhancing services to firms would be improved by setting up some imagined cluster boundaries. Moreover, there are also several potential dangers associated with promoting clusters (see Table 3). First, cluster policy may sponsor an exaggerated view of the extent to which firm performance is determined by local context. For instance, Porter (1998a) claims, "The presence of clusters suggests that much of competitive advantage lies outside a given company or even outside its industry, residing instead in the *locations* of its business units"(p. 198, see also Steiner, 1998, p. 4). Internal and external advantages are clearly not independent, but if a company suffers from poor management, culture and practices it is hard to believe that it can rely on the competitive advantage of its location. While supporting institutions and a networked semi-public sphere may often be necessary for innovative and dynamic firm performance, such factors are unlikely to be sufficient.

Local and regional specialisation also represents a risky strategy (Perry, 1999). The risk of decline and profound instability in specialised regional economies is well known and its relevance has been underlined by the recent downturn in Silicon Valley (. Economic landscapes are littered with local areas of industrial specialisation that were once prosperous and dynamic but have since gone into relative or even absolute decline. Porter himself argues that the causes of decline can be both internal to the cluster and the result of radical changes in external conditions, such as technological discontinuities. Internal decline will be rapid if the cluster suffers from the lock-in of established ways of thinking and doing things, or technological isomorphism (through the normative or mimetic behaviour of firms) occurs. And there are some authors who suggest that a that a reliance on local face-to face contact and tacit knowledge do indeed make local networks of industry especially vulnerable to lock-in (Amin and Cohendet,

**Table 23: Clusters have Costs as well as Benefits**

<b>Claimed Advantages</b>	<b>Potential Disadvantages</b>
Higher innovation	Technological isomorphism
Higher growth	Labour cost inflation
Higher productivity	Inflation of land and housing costs
Increased profitability	Widening of income disparities
Increased competitiveness	Over-specialisation
Higher new firm formation	Institutional and industrial lock-in
High job growth	Local congestion and environmental pressure

1999). Clustered firms may be capable of incremental and continuous improvement within certain parameters, but may be unable to adapt to radical shifts in technology and product (see Pouder and St John, 1996; Loasby, 1998). There is clearly a danger that by encouraging highly specialised localisations of industry, cluster policies may actually reduce innovation rates. The evidence from urban economics suggests that, for many industrial sectors, innovation is associated with location in a diversified urban base. As Duranton and Puga (2000: 553) write “The link between innovation and diversity seems fairly robust, so that highly innovative clusters cannot be bred in previously specialised environments.” None of the swelling ranks of cluster adherents seem to explain how policies should respond to these dangers. Fritz et al (1998) argue that policy makers should see local industrial specialisation as having a ‘risk-return trade off’, plotting the risk of ossification against the higher returns gained from clustering (a point made some time ago by Conroy, 1975, in his study of regional specialisation versus regional diversification). In practice, constructing such ‘trade-offs’ is obviously very far from straightforward.

A further risk related to clusters concerns that of localised inflation and ‘overheating’. The cluster literature itself tends to downplay the importance of cost-based competition. To quote Steiner (1998, p. 4): “The existence of clusters is the decisive element for the competitiveness of regions and nations, not cheap land, labour, or energy, nor even high subsidies and low social costs, nor even high technology strong and leading industries” . Other more cautious sources

express concern about the effects of clusters on local costs. For example, the DETR (2000) notes that the growth of industrial concentrations tightens the labour market, leads to increased congestion and puts pressure on the housing stock, destroying the features conducive to development. It adds, "Firms with lower margins may be forced out of the area and workers on lower incomes, perhaps working in essential services or sectors which support the cluster, find it more difficult to find affordable housing" (ibid.).

The question of the impact of cluster growth on other local sectors of activity is unresolved. The cluster orthodoxy would presumably be that as costs rise in the cluster, less productive firms are either put out of business or move away. In Porter's (1998a, p. 245). view "Rising local wages and profits reflect economic success. This means that less skilled and less productive activities *should* move to other locations" (his emphasis) However, if these firms are labour intensive this would have a large negative impact on the local labour market. There is no theoretical guarantee that the high-productivity growth firms will be able to absorb the excess labour. Those working within the 'core' cluster firms in a locality may enjoy high living standards and rising wages as a compensation for the growing congestion, while those in non-core activities have to make do with inferior real wages and living standards, or have to move away. It cannot, therefore be assumed that the promotion of one or several clusters within a regional economy leads to balanced economic development, or greater competitiveness, or greater well-being across the entire region. Rather the outcome will depend on how the cluster affects the costs and employment of others sectors and localities (Venables, 1996).

Given these potential disadvantages, it would seem more advisable for local and regional authorities to concentrate on encouraging productivity improvements in all local firms, as well as improving their business environments, without necessarily committing to a cluster mind-set. The danger of a cluster-based approach to policy is that it detracts from the need to take a more holistic view of regional development. It is likely that dynamic regions will produce networks even without government incentives (Rosenfeld, 2001). Furthermore, even cluster enthusiasts find it enormously difficult to point to any examples of deliberate cluster promotion programmes that have been

unambiguously successful. Given the consensus that public programmes that attempt to directly create and steer clusters are likely to be ineffective, some argue that cluster policies should concentrate on accommodating the formation of new firms and investing in education and support infrastructure (Breschi and Malerba, 2001). But, once again, there are no clear grounds for tying such measures to confusing cluster frameworks. As Porter (1998a) himself rightly emphasises, many of the most significant influences on industrial development stem from the way in which national regulatory frameworks influence the demand for sophisticated products, the course of industrial innovation, and levels of entrepreneurship (see also Miller et al, 2001). Such regulation, along with the quality of the economic and social infrastructure, may well represent a better focus for policy makers' attention. At its best the current policy preoccupation with cluster strategies looks like a fad for a fairly imprecise and flexible label for differing combinations of measures. Like many fashion labels which are not accompanied by a high quality product, the cluster approach could go out of fashion as quickly as its popularity has mushroomed.

## **6. Conclusions: The Cluster Brand?**

Constructing a critical review of clusters is a difficult task. There are now so many different varieties of clusters and so many confusing claims about their theoretical basis, form, identification and significance that the concept is peculiarly elusive and hard to pin down. The feeling that there must be 'more to it than this' is endemic. The cluster literature is a patchy constellation of ideas, some of which are clearly important to contemporary economic development and some of which are either banal or misleading. But there are two key limitations which we wish to emphasise in conclusion. First, a concept so elastic as the cluster can not provide a universal and deterministic model on how agglomeration is related to regional and local economic growth. At present the siren of universalism is pulling the cluster concept into shallow waters. It is being applied so widely that its explanation of causality and determination becomes overly stretched, thin and fractured. Second, and related to this, economic geographers and other regional analysts have long been aware that just because there is an association between some high-growth industries and

various forms of geographical concentration does not mean that this concentration is the main cause of their economic growth or relative success. The empirical case for clustering remains in its infancy and repeatedly makes the mistake of jumping from particular associations to general causality and applicability.

But this heterogeneity and chaos is only half the story. It would be tempting to conclude that the notion of clusters has no real significance. Yet this is clearly at odds with the enormous policy popularity of the notion and the generous tolerance granted to the idea by a usually critical academic community. The answer to this paradox may lie in the way in which the cluster concept has been *marketed* by Porter and other enthusiasts as a *brand*, rather than just another intellectual product. Just as large corporations use branding to distinguish their products from other largely indistinguishable products (for example see Klein, 2000), so the 'cluster brand' has been much more successful despite the existence of many similar theories and policy recommendations of industrial agglomeration. It has certainly attracted many more 'buyers' in the policy and practitioner markets than its rivals. The reason appears to lie not so much in the theoretical or empirical superiority of the concept, but in the way in which it has been closely tied to a set of positive images and associations. Again, just as branded products are ultimately image-based so that consumers come to associate them with rewarding lifestyle experiences, the cluster brand at its core is based on an image of a high-productivity, knowledge-rich, decentralised, entrepreneurial and socially progressive economy within the reach of local policy-makers (a regional version of the American Dream, perhaps?). In this way, it conforms with, and reinforces, the ideological appeal of the "new regionalism" (see Lovering, 1999). And just as brands are not confined to particular products but can exploit synergies between them, so we should expect the cluster idea to act as an umbrella brand for many different things. The core meaning of clusters lies more in this image than in a coherent and carefully defined set of ideas.

In short, Porter's cluster idea displays all of the key features needed for such a metaphor to assume the power of a successful 'brand' (or even myth – see



Harfield, 1998). First, the metaphor must accord with some strong, if not always clearly defined, aspirations – in this case promoting innovation and competitiveness. It must be expressed in language sufficiently flexible as to permit a wide range of interpretations – in this instance, the hybrid nature of the cluster concept. The metaphor must have authority - here Porter's 'expert knowledge' on competition and business strategy. It must be capable of continual and consistent re-invention and re-application – Porter's cluster concept is itself the latest stage in his evolving theory of competitive advantage, now being actively applied to the latest phase of economic development , the so-called new knowledge economy. And the language of the metaphor must allow the possibility of providing practical action – the cluster as a policy tool.

It is as if, in effect, Porter has applied his theory of competitive strategy – of 'strategic positioning' – to his cluster idea itself. Clever positioning and marketing of the cluster idea have been extremely influential in selling it to policy-makers the world over. In adopting the cluster idea, policy-makers purchase the 'Porter brand', and in doing so serve to reinforce the brand's prominence. What this implies, of course, is that given the power of the 'cluster brand', academic critiques such as this are unlikely to have much of an impact on the concept's popularity. It is perhaps only as the actual limits to 'brand-based cluster policy making' emerge, along with the marshalling of careful evaluative research, that the grip that Porter's cluster idea currently exerts on analytical and policy circles will lessen. As Santayana reminds us (in the quote at the beginning of this paper), fashionable ideas tend to share one thing in common: they all eventually become unfashionable,

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