

INDUSTRIAL CLUSTERS – A BOOM FOR MICRO SMALL AND MEDIUM ENTERPRISES

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ABSTRACT

The industrial sector plays a significant role in the development of all nations. In developing nations, the Micro, Small, and Medium Enterprises (MSMEs) have been given much focused attention due to its low capital requirement and high employment potential. The United Nation's Industrial Development Organisation's (UNIDO) Cluster Development Programme is a project based on Italian Industrial Clusters for the growth of Small and Medium Enterprises all over the world with emphasis on developing nations. The Government of India and subsequently the Government of Kerala have taken several initiatives for the cluster development programme for the growth of small scale industries since 1996 and 2003 respectively. This paper throws light on various such initiatives taken by the Government and other agencies for cluster development activities, their objectives and functioning.

KEYWORDS: Cluster Development Programme, Industrial Clusters, Micro, Small and Medium Enterprises, United Nations Industrial Development Organisation

INTRODUCTION

The process of development of all nations depends entirely on the harmonious growth of the three basic sectors of the economy. Among the developing nations, the industrial sector of a nation plays an important role in their overall development. Therefore an exclusive focus is given to the industrial sector in the development policies of such countries. The role played by micro, small and medium scale industries cannot be neglected in the industrial development and livelihood promotion of a nation particularly of developing nations. Recognising its importance and employment potential this sector has been given sufficient priority in the development policies. Since these industries are small, they are not able to utilize the external economies of scale. The development of industrial clusters assumes significance in this context.

Development of industrial clusters is a project of United Nations Industries Development Organisation (UNIDO) based on Italian experience started in 1995 for the growth of Small and Medium Enterprises (SMEs) all over the world with emphasis on developing nations. An industrial cluster can be defined as a sectoral and geographic concentration of enterprises especially SMEs which have common opportunities and face similar threats. The aim of UNIDO Cluster Development Programme in India is to contribute to the overall performance and collective efficiency of the small and medium enterprises by assisting selected local communities of firms and associations in the clusters.

INITIATIVES FOR CLUSTER DEVELOPMENT

The Government of India adopted Cluster Development Programme in 1996. The Government of Kerala included cluster development as a part of its industrial policy in 2003, and proposed to set up industrial clusters in different sectors to bring entrepreneurs to the same locality and to provide them common facilities.

The Department of Industries, Government of Kerala has initiated programme for setting up clusters in different sectors to bring entrepreneurs who are engaged in manufacturing of similar products, to the same locality and to provide them common facilities. This would reduce relative isolation of the MSMEs and strengthen the linkages among them, thereby coordinating their actions and pooling their resources for a common development goal.

The activities for cluster development include setting up of Common Facility Centres (CFCs), common brand building for export markets, common purchasing practices, common raw material godown, common marketing facility etc. In order to establish the areas where government interventions are required Diagnostic study for each cluster has to be conducted.

As already mentioned an MSME cluster is a sectoral and geographical concentration of micro, small or medium enterprises producing a similar range of goods or services and facing similar threats (e.g. product obsolescence or lack of markets) and opportunities (e.g. scope for increasing turn over through quality upgradation or the introduction of new products or increasing exports) through targeted marketing. Among such firms, geographic proximity can encourage the development of intensive business relations.

OBJECTIVES OF CLUSTER DEVELOPMENT PROGRAMME

The cluster development approach sees the key problem faced by SMEs as one of relative isolation rather than size. Its aim is to help cluster actors:

- To strengthen linkages within the cluster with other SMEs, larger enterprises, and support institutions
- Assist cluster stakeholders to develop a consensus based vision for the cluster as a whole
- Help stakeholders coordinate their action and pool their resources to move towards a shared vision for the cluster as a whole
- Create an autonomous governance framework

KEY CHARACTERISTICS OF THE CLUSTER DEVELOPMENT APPROACH ARE

A Need Based Approach

Cluster development does not start with a pre determined agenda. The developmental agenda for each cluster is based on the demands articulated by its stakeholders. While each cluster faces a wide range of challenges and opportunities, some priority areas for action (“pressure points”) can be quickly identified. However pressure points and the way in which they should be addressed depend on the peculiar features of the cluster.

Flexibility

As the approach must be applicable across a wide range of sectors and countries, a flexible intervention mechanism is required to produce a customized action plan. The success of a cluster development initiative thus depends on the flexibility and empowerment of the programme designers and implementers, and in particular to the Cluster Development Agent (CDA), who works directly to the stakeholders. The process of development of a cluster through this approach therefore warrants that the implementing agency should be willing to support a cluster in a variety of activities.

Intermediary Driven Support

An integral part of the approach to the cluster development is the responsibility of the intermediary institutions such as industry associations, NGOs, institutionalized firm networks, service providers etc. In underperforming clusters

they often have very poor implementation capacities and may need to be revived, depending on the nature of the cluster and types of intervention. These intermediaries are expected to take increasingly a leading role in the identification and implementation of activities, with the aim of “institutionalizing” the process of cluster development – of creating a system of self governance in the cluster. In due course most of these intermediaries become fully empowered and emerge as the center point of the governance frame.

THE ROLE OF CLUSTER DEVELOPMENT AGENTS/ EXECUTIVES (CDA/CDE)

The approach calls for the appointment of a full time Cluster Development Agent (CDA) for a fixed time period by the implementing agency. The CDA plays a pivotal role in the assessment of the development potential of the cluster. In the early stages of intervention, CDA encourages group activities, and is also the engine behind cluster development. As trust is built among the stakeholders, CDA leaves “routine” activities to others and passes on the task of initiation and implementation of activities to local intermediaries. Through these intermediaries, CDA can upscale the activities in the cluster. The final task is to fill the gaps in the ability of intermediaries to identify tasks and implement activity on a continuous basis, to establish a system of self governance in the cluster.

Enterprises can benefit from being located in close proximity. Such positive effects can be called “passive external economies” because they accrue despite any planned efforts by the firm. Such gains are a necessary but not sufficient condition for cluster growth. The benefits of clustering are the outcome of explicit “joint action” among stakeholders in the cluster and range of other entities playing a supporting role, such as service providers, banks, government and nongovernmental support institution, associations, policy makers, retailers, wholesalers, service providers etc. Targeted joint actions lead to what has been called “external economies”. In such actions, the stakeholders break down ventures into small steps which they can handle together and that minimize the risk of failure.

In an overachiever cluster, stakeholders address challenges and opportunities by jointly agreeing on priorities, strategies and activities and implementing the same. Such cooperation is not all pervasive. In fact a strong element of competition constantly propels the stakeholders.

Intense competition is often observed to control the resources (natural, human, and capital) and to access infrastructure (physical, administrative, information, science and technology). This secures efficiency in factor use and most importantly breeds specialization which is essential for the shift to a high growth path. The existence or development of trust and social capital ensures high growth through the cluster by combining the forces of competition and cooperation. Trust in this context is not an absolute concept. It is a level of understanding among stakeholders that facilitates a joint activity ensuring that all relevant information for that joint activity are shared and that the best of efforts are made for achieving the objective of that joint activity. It could be called ‘functional trust’. The more complex an activity, the higher the level of involvement (sharing and dependence) of different stakeholders and the higher the level of functional trust required among those stakeholders. The stock of all such relationship based on shared values and a culture of (local belonging) enshrined in long accepted practices and ways of behaviour but also underlying formal agreements or codes of association is the social capital of a cluster.

Trust is the key element in the creation of widely accepted business practices; without it every contingency would have to be spelled out for every business transaction. Without shared values people cannot be expected to trust each other. The CDA is the external catalyst who helps in the creation of trust among stakeholders.

RESULTS OF CLUSTER DEVELOPMENT

Formation of clusters would result in the emergence and growth of specialized suppliers of raw materials, components, machinery, and sector specific skills. Cluster development also leads to emergence of specialized technical, administrative, and financial services. Creation of conducive ground for development of inter firm cooperation, specialization and cooperation among public and private institutions to promote local production, innovation, and collective learning is ensured as a result of cluster development. The cluster based approach helps overcome disadvantages of economies of scale and weak capital base. At the cluster level it facilitates better responsiveness to market challenges and quicker dissemination of information, sharing of best practices (organizational capabilities, skills and technological innovation), better cost effectiveness due to distribution of many common costs and wider public appropriation of benefits are other important advantages of a cluster based approach.

As a result of all such impetus given to the industrial sector, a slew of new industrial clusters are fast coming up in different parts of Kerala and they are at different stages of development. Certain government agencies like Coir Board, SISI and NGOs like Federation of Industrial clusters are also taking initiative in cluster development. The cluster development activities are coordinated by the Development Commissioner, Ministry of Small Scale Industries. In Kerala it is Kerala Bureau of Industrial Promotion (K-bip) is the coordinator of cluster development programme on behalf of the Industries Department, Government of Kerala.

The initial survey conducted for the preparation of Tenth Five Year Plan document revealed the need for adopting cluster development in Kerala. The programme was approved with the sanctioning of 105 lakhs towards initial fund. As the financial institutions failed to interpret the concept of cluster in the right sense the project could not make an impact in the industrial sector. It was in 2003 that the Government of Kerala adopted cluster development as an important postulate of the industrial policy. The industrial policy 2003 had stated that specific clusters of industrial units would be promoted with the assistance of financial institutions and skill development facilitated through Common Facility Centre and training institutions. The Government of Kerala thus proposed to set up different clusters to bring entrepreneurs who were producing similar products, to the same locality and to provide them common facilities.

ROLE OF DISTRICT INDUSTRIES CENTRES IN THE CLUSTER DEVELOPMENT PROCESS

As per the Government's industrial policy, the role of DICs would be to act as the Key Resource Group for the initiative. In the process of cluster development the DICs:

- Offers critical intervention services at all stages of the programme
- Act as a mentor to the cluster development agent
- Coordinate the cluster development efforts
- Suggest midcourse corrections
- Organise refresher and interaction programmes
- Liaison with the major players in the programme

Some of the pioneer clusters under the cluster development programmes in Kerala are Changanacherry rubber cluster, Kottayam leather cluster, Kalady rice mills clusters, Edappally tread rubber cluster, Perumbavoor plywood cluster etc. Apart from these a host of products and sectors have been identified by the industries department for cluster

development across all the 14 districts in the state. The development of industrial clusters as a tool for increasing production, triggering economic growth, alleviating poverty, and removing regional economic imbalances is gaining momentum.

CONCLUSIONS-A REVAMP REQUIRED

The development process goes to identify a number of sectors like food, environment health care, ethnic wares etc. But the focus and strategy to address the real challenges requires innovation and long sightedness. Even though, Mr. P Chidambaram the then Finance Minister in his Budget speech 2013 has announced several tax relaxations, extension of benefits enjoyed, enhancing refinancing capability etc. for the upliftment of SMEs The Science Technology and Innovation Policy 2013 has not given the required policy attention to small and medium enterprises and the manufacturing sector that they deserve. There is no clue as to how these are going to sustain themselves in the globalised era in the coming decades. There are more than 600 SME industrial clusters, and 3500 artisan clusters, from metal, wood, leather, pottery, cane and bamboo, to textiles and wool, spanning the country's industrial districts and cottage enterprises. For sure, the small industry policies that we have followed so far have run out of steam. Many of the clusters are unlikely to grow with age old technique. This facts show the urgent need for institutional support for upgrading skills among cluster stake holders and to enable them to access modern tools to compete in the globalised markets. Such intermediary institutions will forge the links between the formal R&D institutions and the needs and demands of stakeholders in the cluster. The cluster development activity is a new phase in the industrial development scene of Kerala. A close locational proximity is necessary for the speedy growth of industries. But the attainment of goals of cluster development programme is a strenuous work and requires sincere commitment from the part of the government. A lot of policies and actions need to be undertaken if the cluster development activities are to yield a remarkable success level.

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