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Are Industry Clusters a Good Bet for Rural Development?

by
David L. Barkley and Mark S. Henry
Regional Economic Development Research Laboratory
Clemson University, Clemson, SC

An industry cluster is broadly defined, a geographically close collection of similar and/or related firms that together provide competitive advantages for members of the cluster and the area economy. Industry clusters are prominent in urban areas, with the classic examples of Silicon Valley and Detroit. Industry clusters also exist in rural areas, for example houseboats in Kentucky, furniture in Mississippi, and log homes in Montana. The rapid job growth in some industry clusters has encouraged many states and communities to include cluster promotion as an economic development strategy. The purpose of this note is to summarize the advantages and shortcomings of an industry cluster economic development strategy for rural areas.

Industry Cluster Types. Industry clusters differ from one another based on size, characteristics of the core or dominant sector, purchase-sale linkages among firms, and extent of inter-firm cooperation and collaboration. However, Markusen groups industry clusters into four general types based on shared characteristics (see Table 1). Each type of cluster has a unique structure and inter-firm relationships, and thus, each type requires different strategies for development. Industry cluster development is not a "one size fits all" strategy. And the desirability of that strategy depends on the potential advantages and disadvantages a cluster might provide a local economy.

Table 1. Markusen's Typology of Industry Clusters

Cluster Type	*Characteristics of Member Firms*	*Employment Growth Prospects*
1. Marshallian	Small and medium sized locally-owned firms	Dependent on synergies and economies provided by cluster
2. Hub-and-spoke	One or several large firms with numerous smaller suppliers and service firms	Dependent on growth prospects of large (hub) firms
3. Satellite platforms	Medium and large branch plants	Dependent on region's ability to recruit and retain branch plants
4. State-anchored	Large public or non-profit entity and related, supplying service firms	Dependent on region's ability to expand political support for public facility

Advantages to Cluster Strategy. Targeting industrial development programs at an industry cluster is based on the assumption that such a strategy will provide greater local economic development benefits than those associated with a more diverse industrialization effort. The principal advantages associated with clusters are grouped into four areas:

- Industry clusters provide production and marketing cost savings to member firms, such as, lower labor costs from sharing a labor pool.

- Industry clusters provide enhanced opportunities for cluster firms to focus on fewer activities and to adopt new production technologies and organizations.
- Industry clusters facilitate the development of links, cooperation, and collaboration among area firms, that is, clustering stimulates networking.
- Industry clusters allow communities to focus industrial development programs on the needs of specific industries.

Shortcomings to Cluster Strategy. The principal shortcoming inherent in following such a strategy is that the likelihood of success, for many rural communities, will be small. Industry clusters are difficult to establish for three reasons:

- Communities will have difficulty identifying clusters that best fit their local economies and firms that are most desirable for these clusters. In other words, "picking winners" is very difficult.
- Communities late in developing industry clusters are unlikely to provide the competitive advantages available in areas with larger, more established clusters.
- Communities will have difficulty (financial and political) developing the institutional environment required to support the establishment and growth of industry clusters.

Policy Implications for Development. The advisability of pursuing a cluster strategy depends on the current state of cluster development in the regional economy. First, communities with no distinct industry cluster (or a cluster in a declining industry) will likely find little success in a clustering strategy. Second, rural communities with small industry clusters or communities located near metro areas with industry clusters may wish to pursue a cluster strategy if it is not too costly to provide the supportive services and infrastructure. Third, for communities with a well-developed cluster, programs to expand the cluster will be a good strategy for industrial development. Stuart Rosenfeld recommends three initiatives for "high potential" communities:

- Communities can support, through public leadership and financial incentives, the development of industry organizations that help firms develop a shared vision, identify similar interests, and pursue new opportunities.
- Communities can assist in creating services that help firms discover what they need and where to find it. Services include analyzing market and technology trends; encouraging cooperation in marketing, sales, and input purchases, and providing applied research and labor training.
- Communities can provide a publicly subsidized center that focuses on the needs of a specific industry cluster. Services of such centers include training in technologies and management techniques, sponsoring generic research, and providing access to information.

Suggested Readings:

David L. Barkley and Mark S. Henry, "Advantages and Disadvantages of Targeting Industry Clusters." REDRL Research Report 09-2001-01, Clemson University, 2001. http://cherokee.agecon.clemson.edu/re_e-pub.htm .

Phil Davies, "Courting Clusters." Fedgazette. Federal Reserve Bank of Minneapolis, September, 2003. http://minneapolisfed.org/pubs/fedgaz.

Steven C. Deller
Community Development Economist

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