Clustering and SME-Development
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Clusters are drivers for economic development in the Baltic Sea Region in terms of increased productivity, growth and international competitive position. This is well documented in a number of analyses and reports\(^1\). These documents also point to the opportunities of cluster-driven economic development as an approach to increase international engagement of SMEs, achieve stronger critical mass in areas of complementary specialisation, develop more efficient innovation support structures, and make more targeted R&I investments.

Based on the reports mentioned above and a facilitated process revolving around a macro-regional workshop with active participation by key national stakeholders\(^2\), this working paper outlines the joint priorities on proposed strategic aims and action areas related to Clustering and SME-development in the whole macro-region through 2020.

Over the course of a year, from mid-2015 to mid-2016, and in close dialogue with the Member States throughout the Baltic Sea Region, a multi-annual Strategy Guide for Policy Area Innovation under the framework of the EU Strategy for the Baltic Sea Region (EUSBSR) has been developed by a task force constituted by Sweden, Poland, Estonia, Denmark, Baltic Development Forum, and the Nordic Council of Ministers. The PA INNO Strategy Guide is a document owned and published by PA INNO Steering Committee – elaborating the strategic aims, targets and prioritized actions for PA INNO in the years 2016-2020.

The document in your hands, the working paper on Clustering and SME development was established as one of three tracks\(^3\) in the process of developing the PA INNO Strategy Guide. The objective of the working paper is to establish clear direction on how decision makers put the action plan of the EUSBSR into practice.

The Danish Agency for Science, Technology and Innovation led a process of bringing together expertise, experience and secure broad support from Member State stakeholders in the area of Clustering and SME development. The work involved close coordination with a hand-picked group of country expert nominees, who together identified key, common innovation policy priorities of SME-focused cluster policy in the Baltic Sea Region Member States and associated states. The process explored the regional strengths, innovative environments, cluster and SME network collaboration approaches at transnational level, combining strengths, competences, research and development in the Baltic Sea Region. The findings and recommendations of this process are outlined in this working paper.

\(^1\)Smart Specialisation and Inter-Regional Collaboration (S3 Platform, June 2015) – presenting results of an analysis of benefits, barriers and rationale for inter-regional R&I policy collaboration, Mapping of top S3 priorities in the Baltic Sea Region (S3 Platform, 2015), 2015 State of the Region Report: The Top of Europe – Striving for Direction in a Complex Environment (Baltic Development Forum, Ketels and Pedersen, November 2015), Evaluation of BSR Innovation Express 2013 (February 2015), BSR Stars 2.0 Strategy (September 2014), Boosters and Blockers to cluster-driven SME internationalisation and transnational collaboration (Summary from Innovation Express Experience Exchange, September 2015)

\(^2\)See the appendix for a detailed description of the process

\(^3\)There are three tracks of action in the task force work: 1) Research and Innovation (Sweden lead) 2) Cluster Policy and SME development (Denmark lead) 3) ICT and digital growth (BDF and Estonia lead)
Strategic Aims

With the aim of creating new products and services, clusters engage SMEs, knowledge institutions, industry associations and a range of key public players within different sectors - leading to new jobs and growth both within and reaching outside the Baltic Sea Region. Well organised clusters all over the Baltic Sea Region have already succeeded in this, and benefited from common policy support making it easier for clusters - and the SME's they engage - to collaborate on developing new innovative solutions, creating entry points to new markets, and establishing longer-term innovative partnerships in the region. The potential for collaboration could, however, be transformed to a higher level and thus lead to an even stronger platform for cluster and SME collaboration within the region.

Looking ahead, the new objective for cluster-driven SME development in the Baltic Sea Region will be to further improve the capacity of clusters to support SME innovation and internationalisation, to leverage clusters together with other innovation support structures across the BSR, and to engage clusters as drivers of transnational innovation projects addressing common challenges and building on smart specialisation strategies. To achieve these strategic objectives, several action areas are proposed to further develop capacity for transnational innovation collaboration in SMEs and clusters, and to align innovation support infrastructure and policy instruments internationally. These action areas are elaborated in the next section.

4 In this document, the word “clusters” is used to imply any “organised effort to increase the growth and competitiveness of a cluster within a region, involving firms, government and the research community” (see Cluster Initiative Greenbook). Such organised efforts may be called innovation platforms, innovation ecosystems, innovation networks, or various other terms.

5 Clusters in the region engage – on average around 100 SMEs per cluster – and further collaborate with key entities like branch organisations and business development organisations allowing them to reach more SMEs outside clusters.

6 Through e.g. regional and national cluster programmes, BSR Innovation Express, Interreg programmes, EU programmes targeting clusters, etc.
Proposed Action Areas

1. Supporting SME internationalisation
For SMEs, the Baltic Sea Region already serves as an interesting market. Companies in the member states and associated states of the region have each other’s markets as primary export partners due to low transaction costs, proximity in language, culture and common market standards, etc.

Many Baltic Sea Region clusters have already supported SMEs in engaging even more strongly with other clusters in the BSR through transnational policy initiatives like Innovation the Express cluster-to-cluster collaboration and the Cluster Matchmaking Conference.

In the coming years, there is a further need for supporting SMEs both in becoming interested in internationalisation and in engaging and investing in international innovation collaboration. In this area, policymakers and clusters can take on a variety of actions like:

- Help “packaging system solutions” from groups of companies working within the same sector and linking this to other markets in the region (using neighboring markets as test markets or first reference customers for SMEs).
- Further development of Innovation Express with a stronger focus on scale ups in the region and with a stronger link to more long-term transnational partnerships between clusters and SMEs.
- Continued development of annual Innovation Express Cluster-2-Cluster Matchmaking Conferences (already organised with success in 2013, 2014 and 2015) where clusters meet to start up international collaboration for the benefit of SME’s in the clusters.
- Offering meeting places like large matchmaking events between companies and clusters allowing new companies to share needs for innovation and for engaging in clusters within the region through the Enterprise Europe Network matchmaking tool.
- Communicating the opportunities and benefits of transnational collaboration through e.g. producing professional pamphlets of strong clusters/innovation hubs in the BSR for various sectors and/or best examples of collaboration on clusters in the region and how SMEs have benefitted from this collaboration.
- Aligning and establishing of common standards as well as communicating rules to simplify business interaction – through digitalisation and creating common digital platforms.

2. Capacity building in cluster organisations
To support SMEs working with complicated issues like innovation and internationalisation, it is important to ensure professional and competent cluster organisations.

The cluster landscape in the Baltic Sea Region is quite diverse and ranges from younger, smaller cluster organisations to well established larger cluster organisations with a global outreach. The different BSR member states have different national support programmes in place for helping cluster organisations to lift their competencies and professional support to SMEs. Looking ahead, these national experiences could be shared across the cluster organisations in the region. One example of such an activity is the “Innovation Express Experience Exchange” workshop held in connection with the Cluster Matchmaking Conference in September 2015 – which resulted in a summary of “boosters and blockers” for SME engagement and international innovation collaboration.

New actions for building up capabilities in clusters could be:

- Development of common competence development programme with the aim of sharing knowledge, tools and experiences (for cluster managers and others working in a cluster). This programme should be tested and developed with a strong link to actual needs.

\[\text{Quite many cluster organizations only have around 2 FTE in the secretariat.}\]
in cluster organisations with hands-on approaches allowing the organisations to share their key learnings. Issues to address in the programme could be:

– The importance of cluster excellence? How to develop excellence?
– How to make the partnership work? What are the different incentives for companies, universities and public authorities? How to build up trust and maintain this? What are the tools and experiences?
– How to build up the international portfolio? Is there an international cluster strategy in place? How to establish one?

• Creating incentives for clusters to work more strongly together in order to alleviate the complexity of addressing the global markets, global value chain and the grand societal challenges. Joint actions could be:
  – Developing digital tools/platforms for bringing clusters together, for instance by using the new European Cluster Collaboration Platform (ECCP) or by using the Thematic Group on Clusters within the Enterprise Europe Network.
  – Supplying cluster organisations with more strategic support for international road mapping and positioning both within the region and outside.
  – Encouraging the best cluster organisations to collaborate transnationally, for instance by targeting an Innovation Express call or another funding programme aiming at supporting the best clusters working together.
  – Developing umbrellas of key actors in the region working within different sectors in order to brand the stronghold, for sharing information and for building up strong partnerships and platforms for collaboration like some of the best cluster organisations already do. SCANBALT is one BSR-wide example.

Finally, by securing a better coordination of application rounds, overview of clusters and other relevant actors in the macro region and linking new actions to the smart specialization strategies, there seems to be potential for a better support of clusters and their respective SMEs when new calls open within Interreg, Horizon 2020 and/or COSME, etc. An example could be:

• Scaling up more innovative businesses to commercialise more products and services on a broader macro-regional basis through utilising a mechanism like the SME instrument supported by the Enterprise Europe Network. The instrument consists of a three phase model ranging from market studies, to access to markets and to supporting with a services of services. Access to each phase depends on application. A BSR-version of the SME instrument should build upon national experiences with such commercialisation support services and be launched with the aim of creating a “Champions League” of highly innovative growth oriented companies in the region. In this development of a new tool the sources for financing should also be explored like ERDF or Interreg. The adapted instrument should also tap into existing instrustructures of support like cluster organisations and the Enterprise Europe Network.

3. Alignment of international innovation support infrastructure
Clusters run in close partnerships with companies, knowledge institutions and other key stakeholders like incubators, business development organisations, branch organisations, etc. Some clusters are quite well-integrated in the local, regional and national innovation system, but for many cluster organisations across the Baltic Sea Region, the international innovation system is still to be explored and utilized.

An example of a platform where clusters would benefit from closer collaboration is the Enterprise Europe Network** which is represented in 54 countries and includes business promoters, science parks and other organisations which focus on helping local businesses to grow faster through tailored support, access to European funding and finance as well new partnerships in terms of innovation, export, project cooperation and technological

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cooperation. In some countries, there is already a close link between the Enterprise Europe Network and clusters to support SMEs to enter new international markets both within Europe and elsewhere globally. Another key player in the region is Nordic Innovation where more collaboration can be developed relating to the strategies in the region.

In addition to these innovation support organisations, there are numerous specialized test/demonstration or co-creation facilities across the BSR which could be made more easily accessible – helping to create more efficient and integrated innovation support structures in the region.

New actions for aligning innovation support infrastructure in the BSR could be:

- Aligning EEN and cluster support to SME internationalisation in (and between) all countries in the BSR (following positive experience with working practices in Denmark and Brandenburg). Actions could include peer mentoring programmes, mobility/exchanges between EEN offices, or transnational coaching offers.
- Making test facilities in the BSR available for SMEs through e.g. developing a map of test/demonstration facilities in the BSR (in e.g. green technology or welfare technology) and developing instruments (such as vouchers) to enable SMEs to use these facilities.

4. Alignment of policy and funding instruments

Across Europe, the existence of national or regional Research and Innovation Strategies for Smart Specialisation (RIS3) is the ‘ex-ante conditionality’ for the use of European Structural and Investment (ESI) Funds to support R&I. Such strategies are not only used to develop priorities and target the use of regional structural funds (i.e. ERDF and ESF), but also other regional and national research and innovation investments. Clusters are core components of these strategies – providing knowledge on areas for growth and renewal, mobilising business and knowledge actors within regions and connecting them with relevant actors globally, and driving activities to implement the strategies. Clusters are key actors, but for optimal impact they need a solid framework of funding, commitment, and support from policymakers.

Policymakers are already “using” clusters as vehicles to implement RIS3 on a regional level, and new programmes are emerging to help align regional investments within countries. Although many Member States encourage international collaboration as part of their smart specialisation strategies and there are possibilities to use ESI Funds for transnational collaboration, this is still more of a rarity. More efforts are needed to align policy frames and catalyse transnational collaboration.

New actions for aligning policy and funding instruments could be:

- Linking smart specialisation priorities transnationally – driven by market needs, through e.g.:
  - Providing an overview of thematic priorities across (sub-national) regions in the BSR – highlighting opportunities/demand for international participation.
  - Reserving a percentage of ERDF for transnational activities.
  - Developing transnational calls, or coordinating calls/application rounds across regions/countries (to initiate projects/partnerships in particular thematic areas).
- Tracking results and “value-added” from transnational collaboration
- Communicating “value added propositions” and good practice approaches catalysing other regions to adopt transnational implementation approaches.
- Proactively engaging with other countries and macro-regions (within Europe and internationally) both to attract new partners/collaborative arrangements, and for policy learning.
Appendix – Brief Description of the Process behind the Track 2 Report

The objective of track 2 of the PA INNO Strategy Guide was to bring together expertise, experience and secure broad support from Member State stakeholders on the area of Clustering and SME development in providing the right input to the PA INNO Strategy Guide 2016-2020.

The format chosen for this task was a process involving the facilitation of a macro-regional workshop for 9 BSR countries and the Brandenburg/Berlin Region built upon existing analyses and reports on the state of the region from a perspective focusing on cluster-driven SME-development.

The workshop aimed at identifying key, common innovation policy priorities of SME-focused cluster policy in the Baltic Sea Region Member States and associated states. With the assistance of all respective PA INNO Steering Committee Member States, nominees from all 9 countries and the Brandenburg/Berlin region were handpicked to actively participate in the workshop.

Moreover, the workshop had representation from the Nordic Council of Ministers, the European Commission (DG REGIO) and the Baltic Development Forum.

The handpicked group of country nominees participated in a workshop that took place in Copenhagen on 27 January 2016. The workshop had the following main elements:

- The selected country nominees were asked in the invitation to bring with them to the workshop country mandates to communicate the priorities of policy level, cluster level and key sectors.
- Before the workshop, participants were asked to respond to a brief survey – providing input on key questions. The survey responses were incorporated in the workshop program and in the further development of the PA INNO Strategy Guide after the workshop.
- At the workshop, participants explored the regional strengths, innovative environments, cluster and SME network collaboration approaches at transnational level, combining strengths, competences, research and development in the whole Baltic Sea Region. An underlying idea behind setting up the workshop was to promote the idea of the Baltic Sea Region as a test bed for SME-focused cluster policy. This approach may enable key actors in the region such as SMEs, universities and public authorities to be leading innovation players, even on a global scale.
- As follow-up to the workshop conclusions, and in order to ensure the necessary level of commitment, ownership and awareness towards the joint establishing of the final PA INNO Strategy Guide a draft version of the workshop conclusions was distributed to the workshop participants for comments and possible adjustments before integrating the track 2 findings with the findings of the other task force tracks.