Chapter VIII

From Networks to Clusters and Back Again:
A Decade of Unsatisfied Policy Aspiration in New Zealand

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Abstract

Since the mid-1990s, trade promotion and regional development policy in New Zealand has aimed to promote business growth by encouraging various forms of interfirm cooperation. This chapter reviews the case for public policy intervention in cluster formation and highlights policy insight, drawing on the author’s evaluations of the ways that New Zealand policymakers have sought to encourage business cooperation through networks, alliances, and clusters. The chapter makes a case for cluster intervention but cautions against too much optimism in the contribution that clusters can make to business development. By explaining the particular influences behind successful projects in New Zealand, it is hoped that researchers and policymakers can obtain a better understanding of the conditions needed for effective cluster-based cooperation.
Introduction

Encouraging enterprise owners to recognize their existing or potential membership in a business cluster has been one of the most influential business development ideas of the last decade (Isaksen & Hauge, 2002; Martin and Sunley, 2003; Raines, 2002). This frequently is attributed to the influence of Michael Porter, whose claims about business clusters suggest that they create near-perfect conditions for business growth.

*A concentration of visible rivals encourages the search for ways of competing that are not head on. Niche opportunities overlooked by others can reveal themselves. Ready access to suppliers and partners provides flexibility to configure the value chain in a variety of ways. A more positive-sum form of competition can result when customer choice is widened and different customers are served most efficiently.* (Porter, 2000, pp. 265–266)

In contrast to the optimism of cluster advocates such as Porter (2000), the outcomes of public agency efforts to encourage business participation in cluster groups are frequently disappointing (Huggins, 2000; Kotval & Mullin, 1998; Perry, 2004a; Schmitz, 1999; Tarnbunan, 2005). This chapter examines the contrast between policy ambition and outcome in the context of three policy initiatives in New Zealand.

Strictly, the initiatives examined focus on various forms of business cooperation rather than specifically on business clusters. The first program linked directly to Michael Porter but involved efforts to encourage the formation of joint action groups (JAGs), which were envisaged as loose networks of relatively large groups of firms that would work together to develop new export markets. The second program involved the promotion of hard networks in the form of formal business alliances among small groups of firms. The third and most recent initiative is the Cluster Development Program that was introduced to shift the focus of support to groups of businesses located within the same region. This program has the most claim to be consistent with the idea of business clusters, but for several reasons, all three programs are presented in this chapter as relevant to the debate about small business clustering.

Networks, alliances, and clusters are variations on a theme rather than wholly different species (Rosenfeld, 2005). All may be seen as aspects of the associative economy in which businesses are thought to gain an advantage by making more use of the resources of other businesses and industry support agencies than they did in the past. It can be important to recognize that the precise mechanisms that connect businesses imply particular economic relationships and opportunities for encouraging their formation. For example, it is suggested that networks and alliances require some form of membership, whereas clusters are not based on membership (Rosenfeld, 2005). In practice, this kind of distinction tends to break down. New Zealand’s Cluster Development Programme (CDP), for example, is essentially about encouraging membership groups, some of which had support as joint action groups. Part of the popularity of clusters lies in their vagueness and lack of definitional rigor (Martin & Sunley, 2003). Another reason for the overlap is that clusters, networks, and alliances can be seen to be embedded within each other. A cluster is a geographic concentration of interrelated companies and institutions. Belonging to a cluster may not require any membership...
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