

## MODULE 2 Cluster Governance, Trust and the Role of the CDA



Cluster governance refers to the institutional arrangements that allow cluster stakeholders, who may have different and possibly conflicting priorities, to organize and engage in joint actions. Strengthening the governance system within a cluster entails:

- the **identification of shared cluster objectives**: objectives whose fulfilment will benefit not only individual stakeholders but the cluster as a whole;
- the **formulation of a collective strategy** for the achievement of the cluster objectives: a strategy agreed upon by local stakeholders that ensures a high degree of ownership on their part;
- the **implementation of joint actions**, the coordination and management of projects, initiatives and policies that are implemented collectively;
- the **resolution of any conflicts** that may arise; and
- the **monitoring of outcomes**.

Dynamic clusters depend on a strong governance system that allows the stakeholders to reap the benefits of collective efficiency. Conversely, weak governance tends to result in stagnant clusters. Given the ‘public good’ nature of governance, individual private sector stakeholders are unlikely to invest in its strengthening. Thus, the intervention of an external agent is generally required. UNIDO provides assistance to clusters by appointing professionals (CDAs) and training them to act as temporary catalysts of this process.

At the heart of the work of the CDA is the strengthening of the cluster governance system in all its institutional dimensions, both formal (norms and organizations) and informal (values). The CDA is the professional (or in some cases, part of the team of professionals) who facilitates the process of cluster development. The CDA is appointed at the beginning of the intervention, normally prior to the undertaking of the diagnostic study, and works with the cluster for the period (usually several years) anticipated as necessary to enable the stakeholders to take over responsibility for the establishment of a self-sustaining governance system. The CDA performs his/her functions keeping in mind that the end-goal of the project is that of making his/her presence progressively more redundant, as self-sustaining governance systems develop within the cluster. However, the speed and nature of this transition varies between cluster initiatives.

## 1. The tasks of a CDA and his/her changing role over time

The CDA accompanies the cluster development process from the undertaking of the diagnostic study through planning and implementation to monitoring and evaluation. Cutting across all these stages are three core functions: i) building trust; ii) strengthening the governance system; and iii) facilitating joint actions. As the project evolves over time, different competencies move centre stage. Table 1 summarizes the tasks of the CDA. In reality, these activities tend to overlap and are never as neat in their sequence as described here. The time frames are for a three year project and meant only as guidance.

Table 1: The tasks of the CDA and his/her changing role over time

Activity	Timeframe	Description
Preparation of diagnostic study	6 to 12 months	If CDA has a strong background in economics and industry-specific knowledge, s/he may personally undertake the diagnostic study with the support of local stakeholders and, where necessary, consultants. Otherwise, the CDA provides guidance and coordinates the activities of one or more experts who undertake the study.
Preparation of action plans	3 to 6 months	Prepared on the basis of the findings of the diagnostic study and in coordination with the stakeholders
Plan/ensure implementation of capacity building activities	The following 2 years	The CDA is required to identify skills and competencies that need to be strengthened in the cluster and ways to best enhance them. Throughout this process, the CDA needs to draw on strong analysis and management capacities.
Monitor progress and evaluate results	Throughout the initiative	Once implementation starts, the CDA will personally monitor progress or employ and supervise trained consultants to perform this task.
Transfer responsibility to cluster stakeholders	Usually during the second year of the initiative	Cluster stakeholders would ideally have developed greater trust and identified external sources of financial and other support. At this stage, the CDA begins to transfer responsibilities to the stakeholders, especially for the implementation of activities. The CDA plays here a key role in facilitating a change of mindset towards greater collective efficiency. The CDA's capacity to identify reliable stakeholders and to delegate control to them is critical.
Strengthen the capabilities and the roles of networks of local stakeholders	Usually during the third and final year of the initiative	The cluster is ideally now characterized by a stronger bonding among stakeholders. The CDA encourages and supports stakeholders in taking the lead in strategic planning and long-term activities and the governance system is strengthened.
Make preparations for CDA withdrawal	Towards the end of the initiative	Ideally, the cluster would now have a sufficient level of maturity. An exit strategy should be formulated several months before ending the initiative to avoid gaps and allow for a smooth transition. Extra efforts into strengthening governance and the linkages between stakeholders may be now required. Training of future leaders and network development agents and identification of funding sources for upcoming initiatives may also be necessary.



### Box 1: Providing appropriate incentives to the CDA and encouraging teamwork: An illustration based on UNIDO experience in Senegal

In addition to choosing a CDA with the right competencies, it is also important that the project coordinator provides the right incentives to strengthen his/her motivation. This means granting the CDA a mandate with a reasonable degree of administrative and financial autonomy to respond quickly and effectively to the needs of the cluster. The CDA should have the freedom to meet and communicate with all cluster stakeholders, to visit places external to the cluster, organize formal and informal meetings and select consultants and service providers as s/he sees fit.

Autonomy also includes freedom to initiate and support pilot activities up to an agreed financial limit and to incur basic costs for communication, travel and other logistical support. Financial incentives in the form of performance-related economic rewards may also be considered. Finally, incentives should be provided in the form of training opportunities, including study tours and the possibility to network and exchange experience with other CDAs and project managers. This was the case in Senegal:

The development of small-scale entrepreneurs in Senegal has been fostered by UNIDO via a cluster development project. At the outset, ten CDAs were trained over a period of six months in UNIDO's cluster development methodology and in leadership skills. Senior national experts complemented this training portfolio with additional workshops on organizational structures focusing specifically on cooperatives and financial service providers in Senegal. All courses were held in Dakar, thus bringing the CDAs from the ten project municipalities together so as to endow them with a common understanding of cluster related issues and with the same level of expertise.

Project implementation permitted the application of the concepts and tools learned in the training. Each CDA was assisted by a junior consultant selected by the local authorities, who together were charged with facilitating the cluster development process. Ongoing training sessions together with review meetings allowed the CDAs to meet at least every two months. CDAs in neighbouring regions also decided to meet regularly. Some decided to conduct joint trainings for stakeholders in their clusters, particularly where dynamic role-play and peer interaction was necessary. Within this supportive network, that developed organically, the CDAs were able to learn from each other, exchange best practice and be more effective change agents.

During project implementation, the CDAs also learned from working with entrepreneurs on a daily basis and received regular coaching from a project coordinator who monitored their progress and provided feedback.

## 2. Strengthening the cluster governance system

Strengthening the cluster governance system in all its institutional dimensions is, as discussed, the core of the CDA work. Thus, the CDA will need to undertake a number of activities oriented at strengthening governance in its formal dimension (the clusters organizations and norms) as well as in its informal dimension (the cluster's values). Ideally, as the initiative progresses, a governance system will emerge that has the following characteristics:

- representative of all categories of cluster stakeholders;
- responsive to the needs of the cluster stakeholders;
- strategically orientated for an innovation-led path towards cluster development;
- legitimate within and outside the cluster;
- playing a leadership role in the coordination of joint activities; and
- self-sustaining



## 2.1. Strengthening organizations

To strengthen the governance capacity of private and public sector organizations that play a central role in the initiative (e.g. business associations, chambers of commerce, NGOs, local development agencies, municipalities, BDS providers and leading enterprises), CDAs will need to engage in three types of activities:

- **Capacity-building:** to enable organizations to identify strategic objectives and coordinate and sustain collective actions for their achievement. Support can be provided in the form of workshops, training of personnel and identification and hiring of experts.
- **Brokering representation and participation:** for the governance system to be as representative of the entire cluster as possible, it is important that the interests of all categories of cluster stakeholder are represented institutionally. Often the cluster diagnostic study reveals that one or more groups of stakeholders control the cluster. If existing organizations are under the control of a few cluster stakeholders or vested interests, the CDA may attempt to promote their restructuring.
- **Inter-institutional networking:** to promote dynamic interactions among cluster organizations. To this end, the CDA facilitates a public-private sector dialogue and promotes the establishment of partnerships between public and private sector actors, seeking to create incentives for joint project formulation, management and financing.

## 2.2. Strengthening norms

Where strong social capital exists, trust-based relationships and values can thrive, even in the absence of formal contracts. Where social capital is weak, however, the strengthening of norms can reduce the uncertainty cluster stakeholders face when engaging in joint actions, since they serve to formalize roles, responsibilities and rules and to provide sanctions for non-compliance.

The CDA may propose the adoption of norms to regulate interactions between the members of an association, business partnership or joint project and may produce a first draft of these. Norms could cover memoranda of understanding, codes of conduct and network statutes. In the latter case, norms will address issues such as management of and access to information (for example, on markets, clients and suppliers), access to and use of credit and the management of crises.

Norms can also include regulations that apply to transactions between business partners. These are contracts regulating, for example, the sale or purchase of inputs between suppliers and buyers or formalizing a subcontracting agreement.

The CDA may also promote the adoption and compliance with standards or technical norms governing transactions between buyers and suppliers. Norms and rules need to be introduced gradually, however, so as not to stifle spontaneous collaborative dynamics within the cluster.

In the early stages of a cluster initiative, the stakeholders are unlikely to be enthusiastic about agreeing on binding norms to regulate their interactions out of a fear that their partners may not abide by the agreement. In such cases, the CDA can create opportunities for dialogue and involve the stakeholders in joint low-risk initiatives to help reduce their reluctance to enter into binding commitments.

## 2.3. Strengthening values

Values are rooted in the social and cultural context of a cluster. Without being inherently good or bad, some values are more conducive to the creation of joint actions than others, as it is the case with values that promote collaboration rather than go-it-alone approaches and that associate social stigma with free-riding behaviours. Values that are consistent with and supportive of collaboration exist in every society and have a key role to play in uniting the cluster community.

There is, however, significant experience to suggest that the business conduct of cluster entrepreneurs is often not strongly shaped by collaborative values. That is, free-riding behaviours that are commonly disapproved of in a community



context are often tolerated in the economic arena. In such cases, the objective of the CDA is to introduce or strengthen business practices based on fair and ethical practices similar to those that govern community life.

Effecting change at this level tends to be among the most challenging tasks facing the CDA and achieving it may require a time span that exceeds the duration of the cluster initiative. However, there are some steps that can be taken to kick-start the process.

To start with, the CDA can raise awareness about the inconsistency that exists between the values underpinning community and business life. It is useful to facilitate an open and constructive discussion among the cluster stakeholders on this issue and its implications for their economic performance. The CDA can then identify groups within the cluster that share relatively strong ties and that may be more inclined to engage in collaborative endeavours. In the early stage of the initiative, the CDA can focus on fostering networks among such stakeholders. Showcasing success stories can then reduce reluctance elsewhere in the cluster towards engaging in joint actions.

The CDA works closely with leading stakeholders to promote the adoption of economic behaviours aligned with good business ethics. The end goal is to create role models of successful entrepreneurs whose business activities are based on collaborative values and compliance with commitments.

### Box 2: Better cluster governance: Strengthening organizations and norms - Illustrations based on UNIDO experiences in Ecuador and Nicaragua

#### **The garment cluster of Atuntaqui, Ecuador: The Chamber of Commerce as focal point of cluster governance.**

Following an initial series of successful pilot activities, enterprises in the garments cluster of Atuntaqui agreed to establish a chamber of commerce that would formally register the existing enterprises and foster the development of joint activities in the cluster. The chamber was located in the municipality of Antonio Ante but it soon became a reference point for all firms in the region. Its staff had been trained in the UNIDO cluster development methodology and it started promoting partnerships and collaboration between institutions. Among other things, the chamber encouraged a network of institutions, including universities, vocational institutes, the municipality and handicraft centres, to coordinate that educational services matched the cluster's needs. With the support of the project, the chamber of commerce opened a digital design centre for use by all garment producers, while a local university created a bank of accessories that could be taken on loan on payment of a small fee, thus making new equipment available to the cluster.

**The meat cluster of Chontales, Nicaragua.** The cluster includes about 7,000 livestock farmers and a handful of slaughterhouses processing meat and selling it to supermarkets and end consumers. Despite its high production capacity, the cluster was unable to enter the market for high quality meat products, mainly due to the lack of coordination between the relevant economic actors. The farmers were unaware of the requirements of the meat industry, resulting in irregular supplies and low quality products. Meanwhile, the slaughterhouses felt little commitment towards their suppliers who complained of a non-transparent pricing policy and delays in payment.

In order to improve coordination between producers and processors, UNIDO facilitated the drafting of a supply agreement between farmers' cooperatives and a leading slaughterhouse and sensitized the farmers on the time and quality requirements of the industry. As a result, the farmers' cooperatives created a supply calendar to ensure regular delivery of cattle to the slaughterhouse. The slaughterhouse, for its part, installed a clear and transparent payment system. The interactions between the various stakeholders helped build mutual trust, as indicated by the participation of farmers in planning meetings organized by the slaughterhouse and the increased supply of cattle recorded by the slaughterhouse.



### 3. Building trust and the role of the CDA

Trust is the glue that allows cluster stakeholders with differing or conflicting interests to work together towards the achievement of shared goals. It is thus a prerequisite to joint actions and to the establishment of an effective governance system. In the context of cluster development trust building is about creating *functional trust*, e.g. mutually beneficial relationships. Equipped with such trust, stakeholders cooperate not primarily on the basis of goodwill but rather on a careful calculation of mutual benefits. Such cooperation, however, can potentially generate yields to the whole cluster.

The CDA is the catalyst for the building of trust within the cluster. S/he starts by building *bilateral trust* between cluster stakeholders, be they individuals or institutions and then progresses to the promotion of *multilateral trust*, between cluster entrepreneurs and representatives of their support institutions.

The process of bilateral trust building starts during the formulation of the diagnostic study and then builds through formal and informal interactions between the CDA and the cluster stakeholders. To facilitate trust building, the CDA needs to actively listen to stakeholders; to foster dialogue and innovative thinking, to show sensitivity towards the problems or proposals raised by the stakeholders and to avoid imposing his/her own views.

Bilateral trust allows the CDA to promote multilateral interactions and the involvement of the stakeholders in collective actions. Multilateral trust building begins with the presentation to representatives of stakeholders of the results of the diagnostic study. This offers the CDA a first opportunity to address the cluster stakeholders as a group. To promote multilateral trust the CDA may need to downplay conflicts, promoting instead a dialogue between the stakeholders.

The CDA contribution may be crucial in preventing a clash of conflicting interests by acting as mediator. S/he also helps the cluster stakeholders in the prioritization of the collective initiatives proposed for the action plan. The prioritization of quick-win activities allows the cluster stakeholders to test the reliability of the counterparts and consolidate trust before engaging in more demanding endeavours.

Trust building often requires setting up dialogues to discuss common problems, identify their roots and suggest solutions. Even when no tangible results follow, dialogue often helps create momentum. Besides encouraging and organizing such dialogues by arranging meetings to allow potential participants to introduce themselves, present their business activities and discuss achievements and difficulties, the CDA can promote a number of other trust building activities. These activities could include: i) company visits, ii) joint benchmarking exercises, iii) visits to strong performing clusters in the same sector and iv) other events to improve communication and information sharing. The emphasis should be on win-win solutions in order to reduce the stakeholders' reluctance to engage in joint actions.

There is no pre-defined path for trust building between cluster stakeholders. The success of any initiative largely depends on the ability of the CDA to strengthen relationships among stakeholders and identify innovative responses to emerging conflicts. Where the cluster stakeholders show lack of motivation, the creativity of the CDA becomes a major asset in the trust building process.



### Box 3: Trust building in clusters - Searching creatively for cooperation channels: The blocks printers of Bagru, India

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## 4. Encouraging participation of the private sector and promoting cooperation among competitors

Private sector involvement is essential to the success of any cluster development initiative. However, a number of factors can get in the way of the engagement of the private sector including the fear that the project is merely a repeat of previous failed initiatives and a lack of time and resource on the part of cluster entrepreneurs. Often entrepreneurs just lack an understanding of the potential benefits. In UNIDO methodology for cluster development, the cluster development agents follow various principles to encourage the interest and participation of the private sector. In particular CDAs are trained to:

- **make the ‘business case’** for private sector involvement, highlighting the potential benefits and presenting concrete and measurable goals such as improved supply of labour, influence in policy making, enhanced local image, greater investments opportunities and so on. The CDAs, however, must also ensure that private sector stakeholders are aware of the bigger picture, including the need to connect concrete business interests with wider considerations about cluster competitiveness and poverty reduction.
- **ensure that the private sector remains well informed** about the initiative and that information of the activities of and benefits accruing to direct beneficiaries are shared with the wider business community. When the private sector is reluctant to participate in the initiative, proposing a joint monitoring and evaluation mechanism can help overcome this hesitation.
- **propose joint activities that are time-limited**, since private sector stakeholders are generally reluctant to take on open-ended commitments. Proposed joint activities also need to take into account the different constraints, opportunities and interests facing enterprises of different sizes and operating in different sectors.

Indeed, CDAs need not only seek private sector involvement but also foster collaboration among competing enterprises in a cluster. This is no easy task. Cluster entrepreneurs often need to be first sensitized about the advantages of collaboration and to be exposed to successful examples of joint business ventures. Once momentum is created, the focus can shift to the promotion of new concrete collective actions. At this stage, promoting small acts of cooperation in low-risk areas is the most likely path to helping entrepreneurs gain confidence in the process.

At the same time, though, it is important to address the immediate problems faced by enterprises and to focus on activities that can deliver tangible improvements in areas of major concern for the entrepreneurs. Since entrepreneurs are often reluctant to collaborate in areas where they are in direct competition, for fear of revealing trade secrets, it might be wise to first facilitate collaboration in activities that offer little or no scope for predatory behavior such as, for example, joint training, joint advertising campaigns for a region or shared R&D activities, among others. Box 3 offers an example of effective cooperation among competitors.



#### Box 4: From project governance to sustainable governance: The role of the Cluster Commission

The implementation of a cluster initiative will not immediately result in the emergence of a strong governance system. Enterprises, organizations and networks require time to assume a leading role and to become core elements of a cluster's governance system. Nor can compliance with norms and business ethics be expected to follow automatically from the CDA's prompting.

While cluster stakeholders are learning to organize their interactions in a manner that is conducive to collective efficiency, the CDA can promote the establishment of a temporary inter-institutional network to perform a governance role, defined here as a Cluster Commission.

In general terms, the Cluster Commission operates as a consultative body. It is not an executive agency that enters into the details of joint activities, nor does it engage in detailed administrative work.

The process of identification of the members of the Cluster Commission starts with the diagnostic study that identifies stakeholders with a potentially central role to play in the development and implementation of the cluster development strategy. However, this process continues through the life of the initiative, with the inclusion of both new organizations and existing public and private sector bodies as they begin to play leading roles in the initiative. Given that the end-objective of a cluster development initiative is to foster the development of a competitive and innovative cluster, the Cluster Commission should include stakeholders from:

- organizations representing cluster entrepreneurs (business associations, enterprises networks and so on) and proactive and far-sighted entrepreneurs who are ready to share information and take on responsibilities;
- public or private sector institutions that play an important role in providing the cluster with services;
- knowledge gatekeepers, that is organizations or enterprises that produce and manage knowledge and could promote its dissemination within the cluster;
- representatives of local government who can promote the provision and financing of public goods such as infrastructure, education and social services.

Occasionally, other institutions and associations can be invited to participate for defined periods when specific issues are being addressed. For instance, when strong poverty issues are being considered, it may be wise to involve NGOs or local associations with a poverty-focused mandate.