

Promoting the internationalization of SMEs through clusters

Krasimira Shindarova

Sofia, Bulgaria, e-mail: k.shindarova@gmail.com

***Abstract:** Internationalization has become increasingly important for the competitiveness of enterprises of all sizes. With limited time or capacity, lack of financial or human resources, certain opportunities or potential partners, SMEs need support to enter international markets. Clusters are recognized as an important instrument for promoting innovation, sustainable industrial modernization and interregional cooperation. The aim of this paper is to discover a theoretical and analytical basis for clustering and internationalization, to review the best internationalization practices from clusters in Europe and to explore empirical issues of the internationalization of Bulgarian SMEs.*

Keywords: internationalization, SMEs, cluster

1 Introduction

Internationalization has become increasingly important for the competitiveness of enterprises of all sizes. While large companies are ready to anticipate the potential and risks of globalization for their respective business models, SMEs are at risk of falling behind global competition. With limited time or capacity, lack of financial or human resources, certain opportunities or potential partners, SMEs need support to enter international markets. Clusters are recognized as an important instrument for promoting innovation, sustainable industrial modernization and interregional cooperation.

The aim of this study is to discover a theoretical and analytical basis for clustering and internationalization, to review the best internationalization practices from clusters in Europe and to explore empirical issues of the internationalization of Bulgarian SMEs.

The present paper is a result of analysis of the results of the empirical research performed under project № DN05 / 15 "Determinants and models of the competitive performance of small and medium enterprises in the international business environment", funded by the National Science Research Fund. The research was conducted from surveys amongst 500 companies in Bulgaria

2 Explanation of the methodology, data use and sources.

In order to achieve the research objectives and the tasks set, the existing literature was examined, scientific publications and relevant results were analyzed, European Commission reports and strategic documents, the results from the implemented in the European Strategic Cluster Partnership support instruments for internationalization of SMEs. The research analyzes data collected from study performed under a project № DN05 / 15 "Determinants and models of the competitive performance of small and medium enterprises in the international business environment", funded by the National Science Research Fund. The research was conducted from surveys amongst 500 companies in Bulgaria.

3 Literature review

The role of clusters for economic development of SMEs began to be investigated early in 1860 when Alfred Marshall in his work "Principles of Economics" [1], brought attention to the causes and benefits of locating specialized industries in specific areas (cities) and defined the cluster as "Concentration of specialized industries in specific locations". His theory was developed further by Schumpeter's theories for Swarm (1939) [2], Giacomo Becatini's "Industrial Zone" (1991) [3]. The cluster theory gained wide popularity through the Michael Porter's famous work "On Competition" in 1998 [4] where the concept of cluster as "the geographic concentration of interconnected firms, service providers, related industry firms, as well as institutions specializing in certain areas, competing and cooperating with each other" is detailed explained. At present, the concept of clusters is complex and is covering various forms of cooperative initiatives and competitive strategies, which often occur inside and outside the territory. Kettels and Memedovich (2008) published an article on cluster initiatives, in which they conceptualize clusters and validate them as facilitators of economic development. European Commission gave the following definition on clusters; "clusters can be broadly defined as a group of companies, related economic actors and institutions that are in close proximity and have reached a sufficient size in terms of providing experience, specialization, resources, suppliers and skills". European Commission's Europe 2020 Flagship Initiative, states that "internationally competitive clusters play a vital role in bringing together (...) large companies and SMEs, universities, research centers and communities of scientists and practitioners to exchange knowledge and ideas".

Cluster organizations can play a key role in supporting companies in their internationalization yet this requires that clusters have the competences for internationalization and a strategy supporting these efforts.

There are around 3000 clusters in Europe, accounting for 54 million jobs. They nurture growth and jobs, e.g. 3% higher wages and the 67,700 fast-growing enterprises in clusters employ more staff than other enterprises

4 Cluster internationalization

European Commission promotes international cluster cooperation by intensifying cluster and business network collaboration across borders and sectorial boundaries within and beyond Europe. It supports clusters to partners with other clusters from different industries and countries so they can lead international cooperation in new areas, helping European SMEs integrate into global value chains. The main instruments are:

- European Cluster Collaboration Platform (ECCP) [6] - 1000 registered cluster organizations from across Europe. It represents the main instrument for European clusters to profile themselves, exchange experiences and identify potential partners for transnational cooperation within and beyond Europe.
- International cluster matchmaking events - These events offer cooperation opportunities for European clusters with partners within and beyond Europe. Matchmaking events take place in third markets as well as in Europe. They bring together cluster delegations from Europe and third countries to promote business opportunities and partnerships in strategic fields of mutual interest. Some European events target different sectors to promote cross- sectorial cooperation and help create new value chains in Europe.
- European Strategic Cluster Partnerships for Going International (ESCP-4i) [9] encourage clusters to work together to develop and implement a joint strategy that supports the internationalization of SMEs in third countries. Each ESCP-4i developed a series of joint actions for their members (i.e. business missions, cooperation agreements, gateway services, export consortia, etc.) strengthening European SMEs access to specific third markets and putting in motion a long-term cooperation agenda with strategic partners in third countries

4.1 ESCP's results and impact on SMEs internationalization

There were 3 generations European Strategic Cluster Partnerships.

The first generation (2016 – 2017) - 25 ESCPs involving about 150 clusters across 23 European countries have developed and implemented joint strategies to support SME internationalization towards third countries. The overall achievements:

- 2000 SMEs have been involved in activities targeting international third-markets generating 85 concrete business cooperation cases with international partners
- 370 Cluster-to-Cluster events and
- 3010 Business-to-Business events have been conducted,
- whilst 39 Memoranda of Understanding (MoU) and
- 45 collaboration projects implemented between EU clusters and international peer organizations

Fig. 1: Industrial focus of the European Strategic Cluster Partnerships



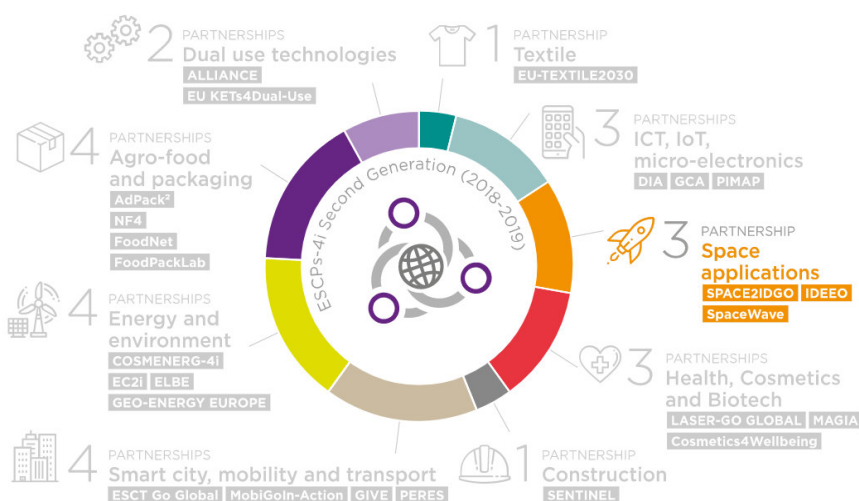
Source: European Cluster Collaboration Platform

The Second generation of 23 co-funded ESCP-4i (2018-2019) involve 123 cluster organisations from 25 European countries active in various industrial sectors. The primary target markets include the USA, Canada, Japan, China and Singapore.

Together, they represent a potential to support more than 17,000 European SMEs.

Fig.2. Industrial focus of second generation European Strategic Cluster

Partnerships



Source: European Cluster Collaboration Platform

The third generation European Strategic Cluster Partnerships should have started on April 2020 but due to Covid 19 Pandemic it is postponed to start on 1st September 2020 and will last 2 years.

4.2 Clusters in Bulgaria

Over the last few years in Bulgaria hundreds (more than 240) of clusters have emerged, but not more than 20 are active in supporting SMEs. In the table bellow it could be seen that only 26 Bulgarian clusters are registered Cluster collaboration platform and only 6 of them are partnering in ESCP. 2 of the clusters are leading ESCPs

Table 1: Bulgarian clusters registered in European Cluster Collaboration Platform and partnerin in European Strategic Cluster Partnerships Goin International.

Name	ESCP-4i Membership
<u>Cluster for development and training of doctors in dental medicine</u>	-
<u>Automotive Cluster Bulgaria</u>	GIVE, EACN
<u>Black Sea Energy Cluster</u>	-
<u>Bulgarian Fashion Association</u>	-
<u>Bulgarian Furniture Cluster</u>	-
<u>CASTRA</u>	-
<u>Cleantech Bulgaria</u>	-
<u>Cluster for Digital Transformation and Innovation</u>	<u>MOVE C2Future</u>
<u>Cluster Green Transport</u>	<u>MOVE</u>
<u>CLUSTER HOISTING DEVICES LTD.</u>	-
<u>Cluster Mechatronics and Automation</u>	-
<u>Cluster Microelectronics and Embedded Systems</u>	-
<u>Cluster Sofia Knowledge City</u>	-
<u>Culinary Arts and Hospitality Association</u>	-
<u>DIGITAL HEALTH AND INNOVATION CLUSTER BULGARIA</u>	-
<u>E-Business Cluster</u>	-
<u>Electric vehicles industrial cluster</u>	MOVE, SmartCTClusters
<u>European Industrial Cluster</u>	-
<u>Green Synergy Cluster</u>	<u>NATUREEF</u>
<u>ICT Cluster</u>	GIVE
<u>ICT Cluster - Blagoevgrad</u>	-
<u>ICT Cluster Burgas</u>	-
<u>ICT Cluster Plovdiv</u>	-
<u>Industrial Cluster Srednogie</u>	-
<u>Knowledge-Intensive Development Association</u>	-
<u>Marine Cluster Bulgaria</u>	-

Source: European Cluster Collaboration Platform

Green Ict deVElopment (GIVE) is one of the partnerships led by Bulgarian cluster – ICT Cluster Bulgaria. [11] Automotive Cluster Bulgaria [12] is a partner

The general project objective is to build up strategic cluster partnership in the field of smart green technologies among the three vital industries - automotive, renewable energy and ICT. 8 clusters from 6 countries (Albania, Bulgaria, Latvia, North Macedonia, Romania, Serbia) are partners in GIVE. Among the achievements of the partnership are:

- It surveyed 256 SMEs about interesting new markets
- more than 250 companies and interested stakeholders took part in 4 webinars
- Identified third markets China, Egypt and Taiwan, 8 MoU signed with partners from target markets
- Organized 6 B2B events in 6 different countries and provide opportunities to SMEs to go and meet new partners, extend their business in Europe and cross-industry
- more than 100 companies, clusters and interested stakeholders took part in the B2B
- Internationalization strategy developed to provide SMEs with financial and capacity support to go to China, Egypt and Taiwan to explore business opportunities in these third markets.
- Organized webinars for opportunities in internationalization in Third countries markets – Taiwan, India, Egypt, China

Move – Moving the future [13] ESCP is the other partnership where Bulgarian cluster is involved – Cluster for Digital Transformation and Innovation (ex name: Bulgarian Cluster Telecommunications”). Partners are: Cluster Green Transport (BG), E-Mobility Cluster Regensburg (DE), Bavarian ITLogistics Cluster (DE), North South Logistics & Transport Cluster (PL), Bulgarian Cluster Telecommunications (BG), CLEVER (IT), Electric vehicles industrial cluster (BG), Canary Cluster for Transports and Logistics (ES), NUMELINK (FR) and Logistics in Wallonia (BE). The main objective of the partnership is to create a new value chain from cross-sectorial and cross border cooperation, as well as to foster SMEs’ internationalization in North Africa and Latin America. Some of the achievements of the partnership are:

- +600 SMEs received useful information,
- 91 express their full interest in the internationalization activities planned by the MOVE partnership, and the internationalization strategy.
- Established contacts during study visits and brokerage events in Saint-Etienne, France, Sofia, Brussels, Canary Islands, etc.

- Development of an intelligent transport center in Morocco with dozens of SMEs - members of the partnership;
- Joint training simulator for drivers between Spain (Titsa) and a Bulgarian public transport company.

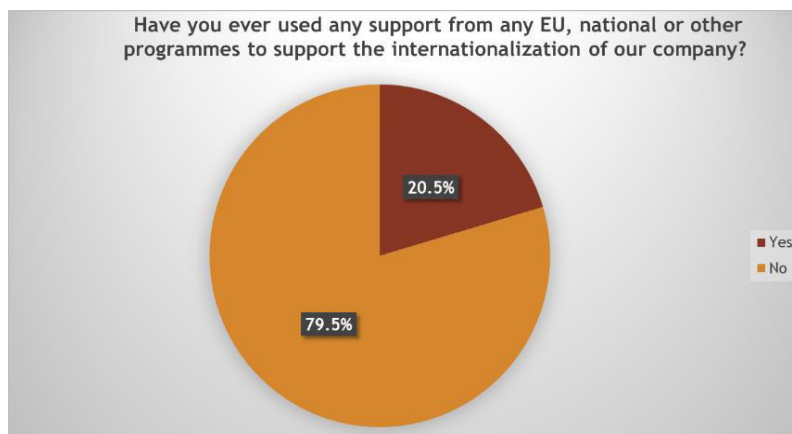
5 The impact on clusters for internationalization of Bulgarian SMEs – Results from a research

A survey was conducted within a project funded by Bulgarian National Science fund among 500 companies from different industries in order to analyse their level of internationalization, challenges they meet, level of support from different actors.

40 % of analyzed companies report to participate in some networks, mainly partnering with suppliers. The level of membership in business support organization is below 10 %

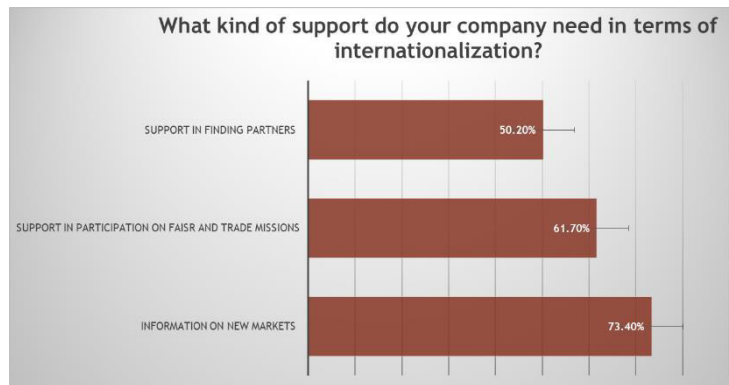
From 488 answers, only 20.5 % reported they used any EU, national or other support for their internationalization

Fig3. Answers of the question: have you ever used any support from EU, national or other programmes to support internationalization of the company



73.4 % of participants answered that they need support in receiving information for new markets and 50 % they need support in finding partners.

Fig. 4. Support needed from the companies in terms of internationalization



Conclusions

With limited time or capacity, lack of financial or human resources, certain opportunities or potential partners, SMEs need support to enter international markets. This study contributes to the extant literature on importance of clusters for SME internationalization performance by attempting to explain the characteristics of Bulgarian clusters and their potential to support SMEs in their internationalization journey

SMEs benefit from business support services of clusters, like the organization of international study visits, “matchmaking” events, market research and etc. These services enable SMEs to find international partners for research and prototyping as well as to bring products and services to new markets. European Strategic Cluster Partnerships are successful instrument for supporting SMEs internationalization through clusters

In the last few years, cluster support initiatives have become significantly focused on their international dialogue and cooperation between different cluster initiatives from different sectors and across national borders;

Only few Bulgarian Clusters are well presented on European Level, and are aware about the instruments of European Commission and are active in supporting internationalization of SMEs. These clusters are from Technology and automotive sector.

Bulgarian SMEs, especially from non – technology sectors are not aware about the opportunities that clusters could provide to help them access new markets.

Based on this study, future research need to analyze the different models and perspectives for improvement the cluster support services for boosting the internationalization performance of SMEs in Bulgaria

Acknowledgement

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