

Industrial Clusters as a Strategic Option for Entrepreneurship Activation

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Abstract

Entrepreneurship has become a focal point of contemporary economic policies. To foster and enhance the development of entrepreneurial ventures, many countries have adopted a network-based organizational approach, namely industrial clusters, to improve and support these emerging entities. This mechanism aims to achieve economies of scale, enabling the exploitation of related-process economies, thus facilitating the adoption of advanced technologies, fostering specialization, and creating more job opportunities. Consequently, product quality is elevated. This research sheds light on industrial network clusters and their impact on activating the nascent entrepreneurship sector.

Keywords:

Entrepreneurship;
Industrial Clusters;
SMEs;
keywords.

JEL Classification Codes: L26; R11; D85

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INTRODUCTION

In contemporary economies, both advanced and developing, entrepreneurial ventures have secured a prominent position within the industrial fabric. Numerous studies affirm their role as a primary driver of economic development. Consequently, enhancing their growth and performance has become a focal point of unparalleled attention.

The prevailing economic conditions compel small enterprises to operate in a highly competitive environment, intensifying pressures and diminishing their chances of survival and success. This necessitates a persistent and determined search for means and mechanisms to ensure their continuity, support, and effectiveness, whether in terms of product quality, cost reduction, resource procurement, or accessing advisory services and market opportunities. The root cause of this situation lies not only in the small size of these ventures but also in their fragmentation and lack of integration into comprehensive structures. This is where network-based organization emerges as a tool to foster convergence among these enterprises within an isolated environment. Such insulation inevitably leads to failure in both domestic and global markets. To develop the entrepreneurial sector, most countries and organizations have adopted the idea of clusters to provide a conducive investment climate and a suitable business environment for creating such entities.

This research aims to analyze the significance and role of industrial clusters in enhancing the effectiveness of entrepreneurial ventures.

Through four chapters, we will explore:

1. Entrepreneurship and Entrepreneurial Ventures
2. Industrial Clusters
3. Clusters and Entrepreneurship Activation

4. Case Studies of Industrial Clusters in Various

First :Entrepreneurship and Entrepreneurial Ventures

Since the publication of Schumacher's seminal work, "Small is Beautiful," large-scale industries have ceased to be the sole symbol of industrialization, technological advancement, and economic growth. Entrepreneurship has emerged as a fundamental component of economic life, not merely due to its prevalence and diversity but also because it permeates all sectors of the economy, contributes to development, complements large-scale enterprises, and serves as a testing ground for innovations. Moreover, entrepreneurship embodies the principles of competition and dynamism.

1. The Importance of Entrepreneurship in National Economies:

Entrepreneurship reflects vast potential and can be a focal point for academic research in industrial economics and management. This is particularly true when the focus is on creating and developing new productive activities, especially through small and medium-sized enterprises (SMEs), which are often considered the engines of economic and social development (Dejardin, M. 2000).

New small-scale industries are at the forefront of developing innovative products and production processes. They often start small but can grow rapidly if successful. The labor-intensive nature of entrepreneurial ventures contributes significantly to social development by alleviating poverty. Additionally, entrepreneurship fosters the development of comprehensive productive capacities, helping to integrate productive resources at all levels of the economy. Entrepreneurship is also characterized by dynamism and flexibility, and it is often more geographically

dispersed than large-scale enterprises. The job creation generated by these firms is a clear example of the economic benefits of entrepreneurship. However, it is essential to cultivate a culture of entrepreneurship to fully realize its potential. This involves promoting a culture of project management and entrepreneurship (Fortin 2002).

From both a macro and microeconomic perspective, SMEs represent a balancing element in the economic fabric of any nation and play a vital role in bolstering various macroeconomic aggregates such as gross domestic product (GDP). Moreover, the development of the knowledge and skills of human resources presents an opportunity to achieve Maslow's hierarchy of needs (Said, A. 2006).

2. The CEFE Methodology

One of the most renowned methodologies for fostering entrepreneurship is CEFE, which stands for “Création des entreprises et formation des entrepreneurs” or “Entrepreneurship Creation and Training” in English. This approach is specifically designed to equip small and medium-sized enterprise (SME) owners in developing nations with the necessary skills to launch and manage successful businesses. Having been successfully implemented in over 40 countries across Asia, Africa, Eastern Europe, and Latin America, with a 61% success rate in creating businesses, CEFE has proven its efficacy.

A primary objective of CEFE is to empower nascent entrepreneurs to conduct a thorough and rational feasibility study for their ventures. This self-directed analysis enables entrepreneurs to assess both the potential for success and the associated risks. By compelling participants to independently evaluate their projects, CEFE fosters a sense of ownership and accountability, making it easier for entrepreneurs to secure financing from financial institutions. (Nasri, M.S. 2002.p3).

The CEFE methodology is centered around two core principles:

- A. **Learning through experience:** This principle is embodied through simulations where entrepreneurs gather comprehensive information about their proposed ventures and present compelling arguments to potential investors.
- B. **Group dynamics:** CEFE promotes collaboration and knowledge sharing among participants. By working in groups, entrepreneurs can benefit from the diverse perspectives and experiences of their peers.

The CEFE approach has been widely recognized as one of the most effective strategies for promoting entrepreneurship globally due to its versatility and adaptability to various contexts.

3. Entrepreneurship in Algeria

3.1.The Concept of the Entrepreneur :

Numerous renowned economists, including Jean-Baptiste Say and Joseph Schumpeter, have contributed to our understanding of entrepreneurship. Peter Drucker was among the first to highlight the shift from a managed economy to an entrepreneurial economy in 1985. The concept of the entrepreneur has evolved (Boutillier, S.p7), and Schumpeter emphasized the entrepreneur's role in innovation and exploiting new opportunities (Dany, F. 2002) . In essence, an entrepreneur is an individual who is skilled at identifying and seizing opportunities to generate profit while being prepared to take risks.

Algerian law defines an entrepreneur as someone who uses means of production within a permanent organization established on a material basis (Law 82/11 of August 28, 1982.p1717).

The law outlines various commercial activities, including those related to leasing, production, construction, and services, that can be undertaken on an entrepreneurial basis.

To be successful, an entrepreneur must possess certain qualities (Ktouche, A., & Hamadi, N.P51), such as a strong work ethic, a spirit of initiative, and a willingness to take risks. A successful entrepreneur is adept at identifying and capitalizing on opportunities, even creating new ones.

However, these ideas can only be realized through a combination of initiative, innovation, and calculated risk-taking.

A thriving entrepreneurial ecosystem typically requires three essential conditions (Aghmani, J. 2009, March 20):

A favorable investment climate, a skilled and educated workforce, and a competitive business environment. Algeria has made significant strides in fostering entrepreneurship, particularly since the economic reforms of the late 1980s. However, challenges such as limited access to finance and bureaucratic hurdles continue to hinder entrepreneurial growth.

From 1963 to 1988, entrepreneurship in Algeria received little attention from public authorities due to the prevailing socialist system. This system did not foster the development of small and medium-sized enterprises, particularly those operating outside of the state sector. Consequently, there was no clear policy framework to support entrepreneurship. Moreover, from an economic perspective, there was a notable absence of coordination between internal units within enterprises and subcontracting firms.

Beginning in 1988, Algeria embarked on a process of restructuring state-owned enterprises and implementing economic reforms. The government prioritized private investment and

reduced the state's role in the economy. The enactment of Law No. 88/25 on investment in 1988 played a pivotal role in stimulating the creation of small and medium-sized enterprises, including subcontracting firms. Subsequently, the Public Procurement Law of 1991, as amended by Decree No. 03/301 in 2003 (Laib, A. 2006.P3), allocated a specific section to subcontracting as a means of executing large-scale projects. In 2001, Law No. 18/01 aimed to promote small and medium-sized subcontracting enterprises, to densify the industrial fabric and establish related industries

Second : Industrial Clusters

Industrial clusters represent a successful strategy that nations have adopted to foster local and regional development. These clusters can emerge organically (*Baduic, L.p5*) or through the implementation of specific national and local policies. The concept of industrial clusters arose from the recognition of the limitations of isolated, non-integrated businesses. Several perspectives have emerged to explain these agglomerations.

1. Definition of Industrial Clusters: An industrial cluster is a geographic concentration of interconnected companies and institutions, such as government agencies, financial institutions, and research organizations, within a specific industry. Academically, industrial clusters are defined as geographic concentrations, whether local, regional, or global, of a group of interconnected companies and their related institutions, belonging to a specific field of activity and linked by complementary relationships and common interests. These interconnected entities form a system of necessary activities (Zaïri, B. 2007).

Industrial clusters are geographic concentrations of interconnected companies, including suppliers, distributors, and complementary product producers. They also encompass a range of supporting institutions such as financial institutions, government agencies, universities, and vocational training

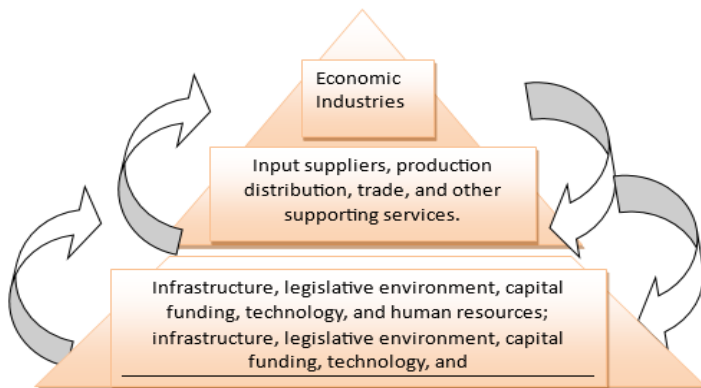
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centers. These clusters are characterized by strong interdependencies among their members.

When discussing industrial clusters, it is essential to consider a group of businesses that share at least one geographic space and exhibit the following characteristics (*Baduic.p1*):

- **Strong cooperative relationships:** These relationships extend beyond the immediate region and often include external trade partners.
- **Shared infrastructure:** This includes shared commercial infrastructure, facilities, labor pools, markets, and communication networks.
- **Exchange of information, financial resources, and labor.**
- **Interconnected forward and backward linkages.**

Figure 1: The Process of Cluster Formation



Source: National Competitiveness Team, (2001).

2.Approaches Related to Industrial Clusters:

Building upon economic studies, a theoretical foundation is essential for selecting appropriate approaches. While there are no established theories specifically dedicated to industrial clusters, certain frameworks offer compelling explanations for this phenomenon. Two prominent perspectives include:

2.1.Value Chain Theory:

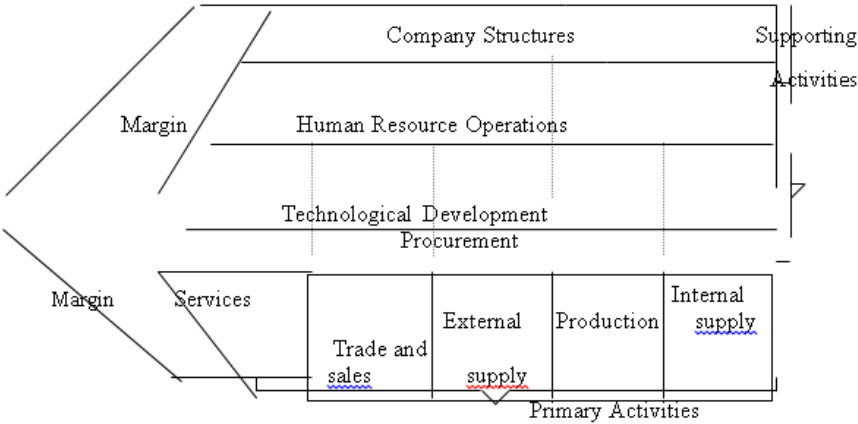
A firm's primary objective is to deliver greater value to its customers than the costs it incurs. The wider this margin (Hlefer, JP, Kalika, M., & Orsoni, J. 2000)., the more competitive the firm. This organizational approach aims to create a unique value proposition by identifying various stages where the firm can deliver value to customers.

Porter's analysis in "Competitive Advantage" defines the value chain as a sequence of activities divided into primary and support activities. Primary activities directly contribute to creating a product or service and include:

- **Inbound logistics:** The processes involved in acquiring inputs, where value is determined by the choice of resources and components.
- **Operations:** Transforming inputs into the final product.
- **Outbound logistics:** Activities related to storing and distributing the final product.
- **Marketing and sales:** Inducing customers to purchase the product, including advertising, promotion, and distribution channels.

Support activities, on the other hand, enhance the effectiveness of primary activities and include general administration, human resource management, research and development, finance, accounting, and other complementary functions."

Figure 2: Value Pattern Sequence



Source: Michael Porter, 1999, p. 53

A firm's value chain, encompassing both primary and secondary activities, can be analyzed from two perspectives when seeking to identify a competitive advantage. The combination of these activities has the potential to create value in the product or service offered to the consumer. A firm may excel in managing the relationship between procurement and sales, as well as research and development, but may be less efficient in procurement and production. This is a critical juncture where the firm must determine which activities to perform internally and which to outsource to specialized firms. Categorizing activities allows for the identification of their relative importance and position within the organization, ultimately informing decisions about vertical integration.

2.2 Transaction Cost Theory :

Transaction cost theory provides a framework for understanding the rationale behind the formation of industrial clusters and their relationship to a firm's capabilities. According to Eric Allix and Patrick Joffre, transaction costs refer to the costs associated with

direct interactions between economic agents (Lamine, T. 2017/2018). O. Williamson further developed this theory, identifying various factors that contribute to high transaction costs and expanding the range of possible inter-organizational relationships, including market transactions, licensing agreements, franchising, joint ventures, and outsourcing.

Key elements of transaction cost theory include the role of uncertainty in economic transactions and the factors that influence the costs of these transactions. Transaction costs can be divided into pre-contractual and post-contractual costs. Pre-contractual costs involve activities such as searching for partners, negotiating, and drafting contracts. Post-contractual costs relate to monitoring contract performance, resolving disputes, and making necessary adjustments. A crucial factor influencing transaction costs is trust, which is influenced by bounded rationality and uncertainty.(Lamine, T. 2017/2018).

In conclusion, transaction cost theory suggests that decisions about vertical integration are not solely based on quantitative factors but also qualitative factors such as trust and human behavior. While the theory does not provide a precise formula for making such decisions, it highlights the importance of considering the costs and benefits of different organizational arrangements."

3.Types of Relationships Within Industrial Clusters

At the cluster level, inter-organizational relationships can be categorized into two types: vertical linkages (backward and forward) and horizontal linkages. Horizontal linkages connect organizations operating at the same stage of production, while vertical linkages connect those at different stages. These linkages facilitate the exchange of goods, expertise, and human resources, as summarized below:

3.1. Outsourcing

3.1.1. Concept of Outsourcing: Outsourcing is a contractual arrangement where a primary contractor engages with another entity known as a subcontractor to deliver goods or services. In this arrangement, the primary contractor, instead of producing certain components in-house, outsources this task to the subcontractor. The subcontractor's specific responsibilities are outlined in a contract, which is developed based on the requirements and specifications set by the primary contractor.

Numerous studies on industrial outsourcing confirm its significant growth in recent decades. The 1960s witnessed a notable increase in outsourcing, particularly in specialized areas requiring specific skills and expertise, such as advanced technology.

The term "industrial outsourcing" has evolved to become synonymous with "industrial partnership," which refers to enduring collaborative relationships that enable firms to establish structural linkages aimed at maximizing mutual economic and social benefits while managing environmental variables, including opportunities and challenges.

The most significant Outsourcing forms are as follows, (Jouamaa, I., & Jouamaa ,2008).

- ✓ **Capacity Outsourcing (Contingency Contracting):** This involves contractors, despite having the necessary infrastructure, entering into outsourcing agreements with other specialized contractors to address temporary surges in demand or technical failures. Long-term contracts may also be established to maintain a high production capacity in a specific industry by utilizing available capacity in the external environment.
- ✓ **Skill-Based Outsourcing:** This type of outsourcing is undertaken with contractors specializing in a particular

field due to their unique expertise, skills, or knowledge. The primary contractor seeks out such contractors based on their specialized capabilities, and the subcontractor must ensure that orders are fulfilled according to their reputation and market standing to maintain their position.

- ✓ **Domestic Outsourcing:** In this form, the contracting parties belong to the same nationality and operate within the same country.
- ✓ **International Outsourcing:** This involves contracting parties from different countries.
- ✓ **Service Outsourcing:** The primary contractor entrusts a series of internal or external services to an external entity, such as a subcontractor or a network of subcontractors, to handle tasks like IT maintenance, transportation, security, insurance, packaging, or marketing. This is often done due to the difficulty of acquiring and effectively managing these specialized skills internally. (Bouali, AR ,2006.12-15).
- ✓ **Vertical Integration:** Vertical integration, specifically backward integration, involves combining activities that were previously performed by separate firms within a customer-supplier relationship. This allows the integrated firm to maintain control over the components of its products, leading to synergies between different stages of the production process. By producing all components in-house, the integrated firm can closely monitor and reduce costs at every stage of production. Examples include a textile firm establishing its cotton farms or an automobile assembly firm setting up its glass manufacturing plants.
- ✓ **Geographic Integration:** Geographic integration involves a firm expanding its operations into multiple locations while maintaining a centralized management structure. This strategy aims to increase market reach and access and can involve the establishment of multiple manufacturing facilities in different regions to produce the same product. A common example is a large retail chain with branches in various locations or a company with

multiple manufacturing facilities scattered across different regions. (Hassan, A. 1998).

- ✓ **Strategic Alliances:** Strategic alliances represent another form of collaboration and partnership, particularly in the areas of technology, information, training, and joint marketing. These alliances aim to reduce costs in these areas and have become a global trend in industrial relationships, especially within the context of advanced industrial clusters. However, strategic alliances require a conducive business environment, a flexible legal and regulatory framework, and the willingness of companies to adopt and benefit from their advantages.
- ✓ **Government and Non-Governmental Organizations:** While general policies support competition, they alone are not sufficient. Government agencies can have a more significant impact at the micro level by removing obstacles and facilitating the establishment of existing clusters. They can also influence related and supporting industries through initiatives such as research and development support.

Business incubators are essential components of cluster ecosystems, providing a comprehensive framework of facilities, services, support mechanisms, and consulting services to assist entrepreneurs in managing and developing new ventures. Incubators offer limited-term support (often less than two years), mitigating risks for entrepreneurs and increasing their chances of success during the startup phase. They assist in areas such as management, access to financing, and technical support. These incubators are often established within universities or institutes to leverage their expertise and resources. (Ben Bouzian, M., & Zyani, T)

4. Types of Industrial Clusters:

Industrial clusters can be classified based on several criteria:

4.1. Stage of Development:

- ✓ **Embryonic Stage:** The cluster is small and has significant potential for growth. (Zaïri, B. 2007.).
- ✓ **Establishment Stage:** The cluster emerges in response to increased demand for a particular product or service.
- ✓ **Expansion Stage:** The cluster experiences rapid growth and development, characterized by increased competition and knowledge accumulation.
- ✓ **Integration Stage:** Clusters may integrate with other clusters, leading to the development of more complex production networks.

4.2. Depth of Relationships Between Units:

Clusters can be classified as having deep or shallow relationships, depending on the strength of production linkages between units and the number of firms involved.

Third: Clusters and Entrepreneurial Activation

Industrial clusters are considered a fundamental solution to support the growth and stability of enterprises. These agglomerations provide opportunities that enable firms to achieve a high degree of economic stability due to the vertical and horizontal linkages they generate. Furthermore, they offer a clear framework for industrial relationships, revealing shortcomings that can be addressed through the design of appropriate policies to strengthen the cluster.

1. Impact of Industrial Clusters on Supporting and Activating Enterprises:

From the perspective of the industrial economics paradigm (structure, conduct, performance), Selzer introduced a new concept in 1970: feedback loops among the various elements of the S/C/P model. This suggests that structure influences firms' managerial behavior, while the latter can, in turn, affect the nature of competition within a sector. Increasing international competitive pressures have driven countries toward high-technology fields, facilitated by network organizations, innovative financing instruments, and renewed support for small and medium-sized enterprises. (*Guillaume, J., Dutter, & Reboud, S. 2003.p9*).

For instance, in the current Albanian economy, introducing a new dairy product (such as yogurt, cheese, or fruit-based dairy products) can lead to a shift in the market structure. (*Kercuku Biba, H. 2003*).

Industrial clusters can influence the creation of new firms through three primary channels:

- A. **Increased productivity of firms within the cluster:** The cluster provides a conducive and supportive production environment for enterprises.
- B. **Driving innovation within the industry.**
- C. **Creating new business opportunities in the sector.**

These outcomes lead to several benefits, including:

- Its ability to source local suppliers for production inputs at relatively lower costs than importing them will positively impact the industry's competitiveness. Furthermore, the more that supported and related industries focus on producing specific, specialized components of production

inputs, the greater their role in helping the primary industry to evolve and compete globally.

- Industrial clusters lead to increased specialization and division of labor. By reducing transaction costs during production stages, they lower overall production costs, thereby enhancing product competitiveness and improving export opportunities.
- The concentration of technical, human, and technological expertise in similar or complementary fields enables enterprises to benefit from economies of scale. By specializing in specific stages or components of raw materials, each unit can contribute to the development of infrastructure, such as legal and financial services.
- Clusters lead to increased job opportunities, thereby reducing unemployment rates, attracting foreign direct investment, and boosting economic growth.
- For instance, the establishment of industrial clusters in France has opened doors to growth and development. Such clusters can offer enterprises the opportunity to thrive in a supportive environment, collaborating with major companies, thereby allowing the system to provide the resources they need.
- Industrial clusters contribute significantly to the optimal utilization of resources, whether for the community as a whole or individual enterprises. Instead of allocating their resources to multiple fields and activities, enterprises can delegate some or all of these tasks to more experienced and specialized entities, focusing their efforts on areas where they excel.
- Industrial clusters foster relationships with external entities by necessitating collaborations with other organizations through long-term contracts. This expands the network of relationships with external parties.
- Therefore, industrial clusters help organize the perceived value for customers and promote small and medium-sized enterprises that complement large industries.

Strengthening the linkages and integration between small enterprises and primary industries, enables enterprises to produce products at lower costs, with higher quality, and with greater product diversity to meet market demands. Additionally, it assists them in acquiring modern technologies and management practices from supporting industries. The concept of clusters cannot be studied independently of the concept of competitiveness. The higher the number of developed clusters within a country, the more competitive and dynamic that country's economy becomes.

- As for the main obstacles hindering the growth of industrial clusters, one of the most significant reasons is the loss of a cluster's competitive advantage, leading to a decline in its growth. This is often due to changes in production technologies that make the skills, resources, and expertise of workers, suppliers, and technicians unsuitable for the new technology. Consumer tastes and needs changes can also lead to products that no longer meet market demands. The existence of cartels or barriers to competition can also pose challenges.

The most important reasons hindering the growth of industrial clusters, and among the most important reasons that cause clusters to lose their competitive advantage and lead to a decline in their growth are:

- Changes in the technology used in production, result in the skills of workers, suppliers, and the scientific and technical expertise used in the production process being unsuitable for the new technology.
- Consumer tastes and needs changes result in products that do not meet market needs.

Fourth : Case Studies of Industrial Clusters in Various Countries

Industrial clusters play a pivotal role in the success of certain countries. Government policies have been instrumental in fostering this success. Key examples and policies are summarized below:

Case Studies:

- ❖ **Silicon Valley, USA (Computers):** A renowned example of a successful technology cluster.
- ❖ **Rotterdam, Netherlands (Logistics):** A global hub for logistics and transportation.
- ❖ **India (Software Outsourcing):** A leading destination for IT outsourcing.
- ❖ **Hollywood, USA (Film):** The global center of the film industry.
- ❖ **Paris, France (Fashion):** A global fashion capital.
- ❖ **South Africa (Diamonds):** A major diamond producer.
- ❖ **Japan (Automobiles, electronics):** A global leader in manufacturing.
- ❖ **Germany (Printing, chemicals, automobiles):** Known for its engineering and manufacturing prowess.
- ❖ **Italy (Ceramics, footwear, machinery):** Famous for its design and manufacturing capabilities.

Government Policies Supporting Clusters:

Brazil: The government has implemented various regulatory policies to support the footwear industry, including vocational training, technology centers, and trade fairs. (Zaïri, B. 2007.p131).

Chile: The Small Projects Agency has revitalized and activated the position of a director responsible for each project group. The primary duty of the director is to represent a group of institutions for three years without the need for oversight from the agency. The agency has taken the initiative to establish direct relationships with (local and foreign) institutions in the field of wood product

development. Additionally, it has increased the number of training courses offered by these institutions to companies operating in this sector.

Jordan: Overall, Jordanian policies have focused on the concept of supplier industries, which significantly impact the performance and competitiveness of the Jordanian pharmaceutical industry. This is evident in the following : (Al-Mansour, AA.p135-136)

1. Collaboration between companies and Jordanian pharmacy faculties in research and development.
2. Banks' responsiveness to financing needs for production expansion and research.
3. Availability of local companies for equipment maintenance and spare parts.
4. Availability of local companies to assist in importing necessary machinery and equipment.
5. Availability of local companies to supply raw materials.
6. Availability of local companies for external marketing.
7. Availability of local companies to provide packaging materials for products.
8. Companies can quickly access specialized suppliers.
9. Companies strive to manufacture production supplies domestically to increase added value.
10. Companies choose factories and locations that are close to existing and complementary industries.
11. Companies work to integrate with raw material suppliers and distributors to overcome resource limitations.

Japan: Japan has established numerous agencies and units to provide necessary support and assistance to small and medium-sized enterprises. These entities act as the executive authority for the country's policies regarding these projects. The Japan External Trade Organization has created a global network by establishing 80 offices worldwide. These offices gather information related to companies in the sector.

Italy: Italian government support focuses on providing the most suitable business services for each type of industry through service centers in industrial zones. They offer a diverse and integrated range of services, most notably credit guarantees, export insurance, quality certification, and trademark registration. These service centers also provide several marketing services related to organizing exhibitions, facilitating access to information about new markets and advanced technologies, and promoting products. Additionally, the centers offer training and development services, and support for innovation and modernization.

Conclusion:

Small and medium-sized enterprises can benefit significantly from the flexibility and adaptability offered by industrial clusters. Clusters facilitate stronger relationships with larger firms, optimize resource utilization, create job opportunities, and concentrate expertise.

The success of various international clusters demonstrates the strong correlation between government support, entrepreneurial activity, and the development of industrial clusters.

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