

# THE COOPERATION IN CLUSTERS, A STRATEGY FOR THE DESTINATION MANAGEMENT ORGANIZATION

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## Abstract

*Clusters vary from one company to another depending on the activity, the area in which they operate and activity of networking with other institutions in the areas of interest. The tourist destination organization could contribute to the regional development by implementing in its development policy the strategy of a cluster association. This paper provides an overview of the investigation of the term cluster with an emphasis on the level of knowledge of the term. The recent development of this sort of association is increasingly taken into considerations by investors and also by policymakers, interested in regional development of economy. Our hypothesis considers that the term cluster, regarding the association for the regional economic development, could be a good strategy for Romanian firms and particularly for destination management organization. In this paper, based on the exploratory research and a pilot survey, we show that the term cluster, on the perspective of economic growth, is moderately known and his impact on the economic development is rather unclear. Regarding the management of tourism destination, the association in clusters prepare for a long-term development support for tourism, integrated in the European development strategy. For a tourism destination organization, the association in a regional non industrial cluster provides consistency for the development policy and strategy, growth the institutional and companies relationship, improve legislation, touristic product development and diversification, marketing, tourism infrastructure, rise the economic impact of tourism, attract new investors and enhances the human resource development.*

**Keywords:** *Development, cluster, association, destination*

**JEL Classification:** R110, R580, Z300

## Introduction

Clusters are a key dimension of the European Commission policy agenda in terms of upgrading the European competitiveness and creating the new dynamism in the European economy. (Ketels and Protsiv, 2016).

The term cluster is used in any group of activities to achieve the relationship and to develop various areas of interest. In the cluster theory, the exchange of knowledge between clusters members is particularly noticeable. These exchanges take place through different forms of interaction between cluster companies, from vertical supplier-buyer relationships, to horizontal alliances, licensing agreements, or research consortia (Arikan,

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2009). According to Porter (1998), clusters are a new way of thinking about the territorial location, a challenge of the conventional approach of companies' configuration, universities contribution to the competitiveness increasing, or governmental involvement to promote economic development.

Clusters can be combined naturally with the evolution of the market for any type of association, raise the level of performance of the company, but also the area of interest in which it operates. The economic development based on cluster growth is due to increased competitiveness through the emergence of several companies operating in the same field. Similarly, a reduced economic activity and the disappearance of some firms may lead to a slowdown in the emergence and development of clusters. Clusters may vary depending on the activity, the area in which they operate and the networking type with other institutions in the areas of interest. Modern cluster approaches associate the geographic proximity of companies and other similarities or differences: employee skills, technology used by each company, management or market capacity of companies (Miron et al., 2016). Considering Pike's (2008), the tourist destination is not just a political or administrative boundary, but rather, it is a geographic space in which there is a cluster of tourism resources. We wonder whether cluster association might be one of the key development strategies of destination management organizations in Romania but, at the same time, what is the level of knowledge of the cluster concept among Romanian companies? The degree of knowledge of the concept and how theory of clusters is relevant for establishing the development strategies of the Romanian companies could be the elements from which we can start to analyze the influence that this type of association has on the development of a destinations.

The introduction familiarizes the reader with the context of the paper. It must reflect, briefly, current research in the field and order approach presented in the article.

### **1. Review of the scientific literature**

At European level, the economy is divided into large regions or areas of interest; while macroeconomic conditions are suitable for many areas, the microeconomic differ significantly, which are common within the country. Recent studies have shown strength developed clusters in supporting a larger region to further enhance performance. (Ketels, C. & S. Protsiv, 2013). The clusters power is given by the complexity of the components, as shown in the European Cluster Panorama (2016) (Fig. 1.)

In the followings, we explain the significance of groups of elements.

- Specialization is measured by the relative size of regional employment in a given cluster category, reflected in its location.
- The absolute size is measured by the number of employees and establishments.
- Productivity is measured by the wages paid in a regional cluster (adjusted for local cost levels).
- Dynamism is measured by a simple average employment growth and the presence of fast-growing new firms.

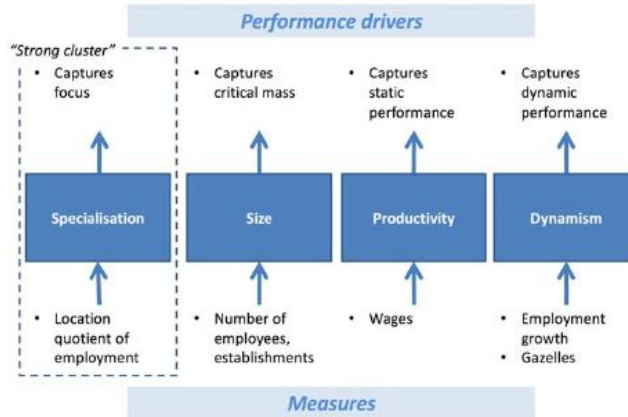


Figure 1. Measurement of the performance of clusters

Source Ketels and Protsiv, (2016), European Cluster Panorama

Porter (1998) define cluster as „geographic concentrations of interconnected companies and institutions in a particular field” According to Porter (1998), in a cluster a multitude of industries are connected to other entities important to competition - considered to be in coexistence with cooperation, because they occur on different dimension and among different companies. The cluster emphasis the shared knowledge witch enable cluster firms to „combine and re-combine similar and non-similar resources to produce new knowledge and innovations” and stimulate the economic specialisation within the cluster (Bathelt, Malmberg, & Maskell, 2004). Expósito-Langa et al (2015) use the idea of network as a metaphor to explain the relational characteristics of clusters. Due to the geographical proximity, the information passing between different actors becomes a normal fact. Consequently, spaces and networks as vehicles of knowledge transfer and dissemination significantly overlap (Boschma and Ter Wal cited in Expósito-Langa et al, 2015). Inside the cluster, knowledge resources flow fast, which results in reduced search costs (Maskell cited in Expósito-Langa et al, 2015). Moreover, the knowledge utilization is different to that produced in other contexts, which help the learning process and generates valuable effects for all the firms in the cluster.

In the Table 1 we can see the most important clusters from all Europe. Most regions have between 5 and 15 strong clusters according to the definition stated by Ketels and Protsiv (2016) in European Cluster Panorama.

**Table1. Leading Regions by Cluster**

Region Name	Largest City	Top 3 Clusters
Istanbul	Istanbul	Appliances Textile Manufacturing Biopharmaceuticals
Oberbayern	Munich	Aerospace Vehicles and Defense Biopharmaceuticals Video Production and Distribution
Île de France	Paris	Performing Arts Video Production and Distribution Marketing, Design, and Publishing
Stuttgart	Stuttgart	Production Technology and Heavy Machinery Automotive Metalworking Technology
Lombardia	Milan	Textile Manufacturing Insurance Services Financial Services
Hamburg	Hamburg	Water Transportation Metal Mining Medical Devices
Düsseldorf	Düsseldorf	Production Technology and Heavy Machinery Communications Equipment and Services Upstream Chemical Products
Slaskie	Katowice	Coal Mining Lighting and Electrical Equipment Furniture
Wielkopolskie	Poznan	Appliances Furniture Livestock Processing

Source Authors adaption on Ketels, C., Protsiv, S., (2016). *European Cluster Panorama 2016, European Cluster Observatory Report*

Firms optimize their strategic development by „accumulating, combining, and recombining resources” (Zettinig, and Vincze, 2012). In this effort, firms adjust the activity to their external environments by taking decisions regarding how a resource base could be directed towards specialized processes and investments to become a set of dynamic capabilities. (Jacobides and Winter, Teece et al., Eisenhardt and Martin, cited in Zettinig, and Vincze, 2012). Therefore, environmental dynamism should be taken into consideration in evaluation of the processes types that qualify as dynamic capabilities. As Nelson and Winter cited in Zettinig, and Vincze (2012) stated, traditional organizations inside stable environments develop routine that make their actions more predictable, further contributing to the stable environment, and, in most cases, this is a critical factor of their actual efficiency and competitiveness. In dynamic contexts, such routines may be a barrier in terms of adapting to the changes of the external environment (Eisenhardt and Martin cited in Zettinig, and Vincze, 2012). In order to continue to exist in the context of environmental change, companies need to perform in two actions: exploitation for the current needs, but also, exploration, for future incomes. From a network perspective, well-built relations between actors typically favor the exploitation of existing knowledge

and technologies, while weak connections help the exploration of new knowledge and technologies (Ahuja cited in Zetting, and Vincze, 2012). Therefore, it is important to build a cluster network that contains both relations (Zetting, and Vincze, 2012)

On the other hand, conventional location theory holds that location preferred by firms is determined by transport cost minimization and best possible combination of key location-specific inputs for an optimal level of production in order to maximize the profit (Parto, 2008). According to Storper cited in Parto (2008), co-location by firms in clusters is expected to secure competitive advantage through deriving benefits from

- Increasing returns driven by the systemic properties implanted in the local systems in the context of globalization
- Decreases in transaction costs
- Improvement and technological growth arising from local exchanges
- Cost reduction through learning by imitation
- Dedicated labor market, specialization through local division of labor, the existence of capable specialized suppliers
- The advantage of the first move outside the initial area of specialization
- Benefits related to customer orientation of the organization and diversification of products

As Parto (2008) state, many articles have been written on clusters over the last few years. The growing interest in clusters is a manifestation of the broader change of approach in economic policymaking toward the microeconomic basics of wealth and development (Ketel cited in Parto (2008), a change whose legitimacy has been questioned by the more critical scholars such as Harrison (1992), Harrison, Kelly and Grant (1996), and Martin and Sunley (2003) (Parto, 2008)

## **2. Research methodology**

To appreciate the economic operators 'view of clustering in order to record new regional economic performance, a pilot survey was launched for 60 companies' stakeholders. We used an exploratory survey considering the lack of knowledge about cluster association and its strategic importance for local and regional business development. The questionnaire applied to economic operators is made up of 12 items distributed in such a way as to provide information on both their views and their concrete actions on the proposed topic. In this regard, 6 matrix answer questions were formulated; 1 open question, giving respondents the opportunity to express themselves freely and 5 grid questions with predefined responses. The questionnaire was applied during five working days in March 2017 at meetings where economic training is being conducted. The persons concerned were representatives of the companies operating in Bucharest and its surroundings in various fields for bringing together a wide range of fields of activity in the areas of interest. The questionnaire was applied on paper support and the information was centralized and analyzed by applying the semantic differential scale and the pair comparison method, using the Microsoft Excel application.

### 3 Results and discussion

In order to have an understanding of the companies' perceptions of cluster concept and how they understand the importance of the cluster for the economic development of a region, we analyze the results of their responses to the applied questionnaire.

In table no 2, are presented the variants of the answer to the question of the advantages of setting up a cluster.

**Table 2. Benefits of setting up a cluster**

<b>In order of importance, what do you think are the benefits of setting up a cluster?</b>	Points	Average scores
1. Reducing communication barriers between institutions/companies involved	124	2.067
2. Create common products of interest for the entire network	121	2.017
3. Helps raise the standard of living of society	126	2.100
4. Management bodies collect large amounts of money that have a positive impact on the economy	122	2.033
5. The costs recorded are lower for all members of the network	128	2.133

*Source Designed by authors, based on the own research*

After the data centralization, we observe that responders appreciate first of all that lower costs are recorded for all network members (average score of 2.133), followed by the appreciation that it helps to increase the standard of living of society (average score of 2.100). The essential element to be considered in defining the main ways of action is to create common products of interest for the entire network. Overall, the situation is relatively favourable, with average appreciations ranging from 2 to 3, which corresponds to "very important" levels "non-significant and "indifferent".

**Table 3. Opinion on the financial resources for innovative cluster activities by European funds**

<b>In general, do you think it is good that financial resources for innovative cluster activities come from European funds?</b>	Answers	Percent value
1. Yes, it is good to have a non-reimbursable fundraiser.	18	30%
2. Yes, but it is good to have your own resources.	15	25%
3. No, it is not good to use European funding.	15	25%
4. Other answers	12	20%

*Source Designed by authors, based on the own research*

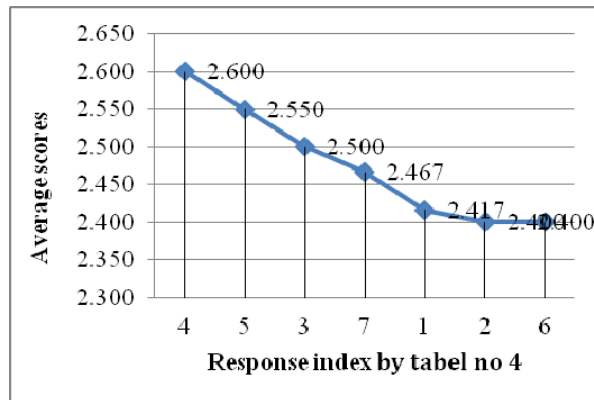
The results demonstrate that the first place in the order of the preferences of the companies' representatives is the appreciation of the financial resources from the European financing (30%), followed by the importance of existence of own resources (25%) and equally with this, European funding disagreement. The provenance of

European funding resources for the innovative activities of the cluster enjoys a favourable appreciation, as evidenced by the value of the percentage determined by the centralization of the data.

**Table 4. The ways to organize a cluster**

3. To what extent do you consider each of the ways in which a cluster is organized to bring maximum benefits?	Points	Average scores
1. Geographic organization: Spatial initiation of clustered economic activities	145	2.417
2. Horizontal organization: example - tour operators or hoteliers	144	2.400
3. Vertical organization: in clusters there may be stages of the production process - the initiator and final executor of the innovations	150	2.500
4. Side organization: - merges different sectors - conglomerate cluster	156	2.600
5. Technological organization: the compatibility of the industries using the same technology - the cluster of tourist booking systems	153	2.550
6. Organization of focus: cluster of companies, concentrated around a center-enterprise, technological center or educational institution	144	2.400
7. Qualitative organization: cooperation for innovation	148	2.467

Source Designed by authors, based on the own research



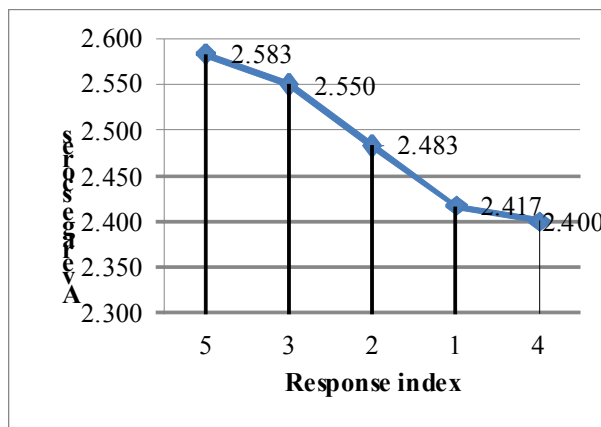
**Figure 2- The ways to organize a cluster in order of importance**

The results show that the first place in the order of appreciation of the entrepreneurs is the lateral organization, followed by the technological organization and vertical organization. Although it is ranked fourth in terms of entrepreneurial appraisals, the qualitative organization is very close to the geographical organization. The last place in the entrepreneurs' assessments is the horizontal organization, which is aligned with the focus organization. Overall, the responders appreciate that each of the organizational modalities of a cluster brings maximum benefits.

Considering what is the most important issue for creating a cluster in a particular area, the responders understand very well the main goal of a cluster, the network and the cooperation (table no 4).

With regard to identifying the key issues for setting up a cluster, 5 variants of answers were addressed:

1. The existence of competitive businesses
2. Favourable geographic location
3. The key partners are focused around
4. High diversity of partners
5. The existence of formal and informal links between cluster partners



**Figure 3. Essential issues for setting up a cluster**

*Source Designed by authors, based on the own research*

When a cluster is established, it is appreciated that the most important aspect identified is the existence of formal and informal links between cluster partners followed closely by the concentration of key partners nearby. Even if the geographical location is essential in the definition of the cluster, our survey respondents rank it on the third place, followed by the existence of the competitive businesses and the high diversity of partners (Figure 3).

One aspect observed in our investigation concerns the possibility of abnormalities in accessing European funds. Thus, three variants of response were specified:

1. It affects excessive bureaucracy
2. It is the settlement of payments
3. Time allocated for project evaluation

In respondents' opinion, the time spent on project evaluation is the most important (average score 2.950), followed by the negative effects of excessive bureaucracy (average score 2.833). Although it is the last place in the evaluations, settlement of payments is important when accessing European funds is a short distance away from the effects of excessive bureaucracy (average score 2.833).

An important aspect of this survey was the level of knowledge of Romanian companies' representatives of the premises of the Europe 2020 strategy.



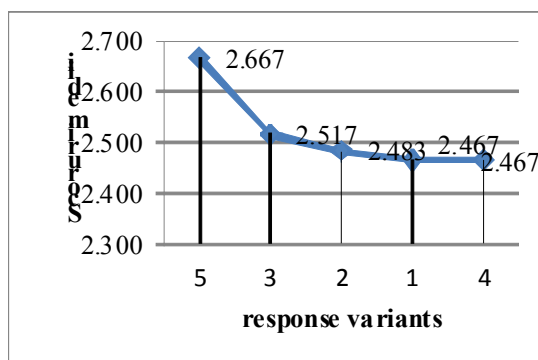
**Table 5. The preconditions for the Europe 2020 strategy**

What are the preconditions for the Europe 2020 strategy?	Answers	Percentage value
1. It is a 10-year EU strategy on the economy of Europe	12	20%
2. Wishes broader coordination of economic and fiscal-budgetary policies	9	15%
3. Supports smart and sustainable economic growth by creating favourable conditions	11	18%
4. Developing regions of the EU Member States equally	10	17%
5. Uniformity of the socio-economic ecosystem	9	15%
6. Do not know / do not answer	9	15%

By summing up the assessments for each of the prerequisites that are specific to the Europe 2020 strategy, it is noted that the premise „is a 10-year European Union strategy for Europe's economy" with 20% of responds is the best known precondition. The premise „supports growth Economic and sustainable economic growth through the creation of favourable conditions" (18%) and „the development of the regions of the EU Member states on an equal footing" (17%), have almost similar answers, while on the last place are equally, the „uniformity of the socio-economic ecosystem" and „wishes to coordinate the economic and fiscal-budgetary policies". A percentage of 15% of respondents does not know the subject or do not respond, which suggests that European strategies are still not sufficiently disseminated at microeconomic level.

The objectives of the European Union are also a necessary criterion to address in the survey, their knowledge of economic operators having an important role in approaching the cluster association. The response variants were numbered from 1 to 5 and presented graphically in Figure 4.

1. Employment
2. Education
3. Research and Innovation
4. Social Inclusion and Poverty Reduction
5. Energy and climate change

**Figure 4. Objectives of the European Union**

Source The author's own design

Energy and climate change are considered to be the most important objective of the European Union (average score 2,667), the last being social inclusion and poverty reduction. It is important to note that respondents rated second and third places education and research.

In view of this hierarchy, another problem addressed by this questionnaire, namely the appreciation of the economic environment regarding the cooperation at the level of the innovative cluster in the field of education and administration (table no. 6), naturally continues.

**Table 6 The institutions which can cooperate in setting up an innovative cluster**

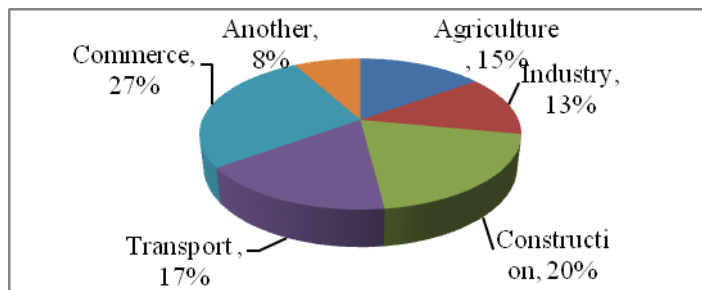
To what extent do you think it is necessary, for the establishment of an innovative cluster, the cooperation of the economic with ...	Points	Average scores
Universities	148	2,467
Research Centers	152	2,533
Government institutions	149	2,483
High schools and vocational schools	145	2,417
Local public administrations	153	2,550

Source The author's own design

In order to establish an innovative cluster, the representatives of the societies consider it important to cooperate with the academic environment represented in particular by the research centres, but consider almost equally cooperation with public administrations to be relevant to the cluster.

While keeping the same register, the question of human resource training in line with regional labour market requirements is equally divided among respondents. 33% of respondents are in favour of training, because it is necessary to connect the educational and economic environment, 32% accept the idea, but without losing sight of macroeconomic expectations, while 35% disagree with this idea, considering that everyone should preparing itself according to personal skills.

Taking into account the professional characteristics of the interviewed group, they are involved in different fields of activity (Figure 5) covering a wide range of economic branches, with 30% management and 70% execution functions.



**Figure 5 Areas of activity of the respondents**

Source authors own design

Representatives of the surveyed companies are heavily involved in commerce (27%), 20% in construction, 17% in transport, 15% in agriculture, 13% in industry, and 8% in other fields such as human resources, medicine and education.

### **Conclusions**

Market requires the combination of several factors for development. Clusters fits in this process and helps development of the business segment, being helpful in planning group strategies. Clusters are tailored to fit the needs of the institutions that work in a particular area. Currently clusters have achieved and managed to reunite with the strategies of institutions belonging to several regions, making possible macroeconomic clusters. In Romania the cluster concept comes in small steps in company strategies. They want to cooperate with the institutions in the same region to develop competitiveness and regional development. Firms are facing in this process and come up with strategies to promote innovation of new products and services, and helps institutions to implement strategies to inform and improve the region's population. The national development of clusters relies on support from the European grants, coming from large regions already involved in the process. As our research reveals, the dimension of this concept needs to be better understood on the level of Romanian companies and regions in order to integrate in the European strategies of development. The outcome of this study can be extended to a region and a specific field of activity in order to assess the level of understanding of the cluster concept in the researched economic and geographic area. In the field of tourism in Romania, cluster organization although it is at first, the prospects that this form of association can offer to regional tourism development, as demonstrated in other areas of activity, could be included in the development strategies of destination management organizations. New research on the cluster in tourism could help to extend these forms of association, thus contributing to the improvement of the destination marketing strategies.

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