
Socially responsible clusters in theory and practice

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PROACTIVE MANAGEMENT CONSULTING®

Agenda

- 1. The evolvment of business networks and clusters**
2. Creativity & social responsibility as major value creators
3. The practical experience of Proactive Management Cluster

Weak links are known to stabilize complex systems and vice versa

- As physicist Albert-Laszlo Barabasi realized: “Nodes (i.e. people) in social networks are grouped in small clusters, representing circles of friends and acquaintances in which each node is connected to all other nodes, with only a few weak links to the world outside their own circle of friends.”
- In so-called real networks most nodes have only a few links, and only a small, but significant minority have a very large number of links. Such networks are “**scale free**”, as they lack a characteristic node, an intrinsic scale. Rare midpoints (hubs) ensure the connectivity of the network, while the linkage between smaller nodes makes complex networks resistant and fault-tolerant.
- Networking is present in the economy too; business networks are based on trust, which decreases (transactional and operating) costs. Several historical forms of partnerships based on such networks can be viewed as forerunners, yet each differs from clusters:
 - **Chaebol** refers to the several dozen large, family-controlled Korean corporate groups, **assisted by government financing**. The government’s industrial policy sets the direction of new investments and the banking sector guaranteed loans.
 - The **zaibatsu** in Japan were large family-controlled **banking** and **industrial** combines and had a vertical chain of command.
 - A **keiretsu** is a set of companies with **interlocking business relationships and shareholdings**. Unity and loyalty are at the core of these **bank-based** systems.



Albert-László Barabási

A cluster means both competition AND cooperation

- The cluster definition of **Michael Porter** (2000): "geographic concentrations of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions (e.g. universities, standards agencies, trade associations) in particular fields that compete but also cooperate"
- It is not (only) a supplier relation, far more than a project-based consortium or even a (geographic) location-based strategic alliance. The **confidential and social capital** are important resources of clusters.
- Considering the value chain, clusters can be divided into three types:
 - **horizontal**: companies within the same industry sector, co-located in a particular geographic area, might share an industrial or technological base, operate within a common market and use a common purchasing and/or distribution channel
 - **vertical**: includes horizontal cluster participants as well as supply chain members (suppliers, consumers, related services)
 - **diagonal**: complementary or symbiotic activities, where each firm adds value to the other, thus linking industries that originally are far apart from each other

It is not distinct enterprises taking part in today's global competition anymore, but rather clusters have become the new units for global competition!

Source: Porter, M. E.. (2000) Location, competition, and Economic Development: Local Clusters in a Global Economy. *Economic Development Quarterly*, 14/1, 15-34.

Braun, P. (2005) The importance of value chains and co-operation as drivers for SMEs growth, performance and competitiveness in the tourism-related industries – Creating value to tourism products through tourism networks and clusters: uncovering destination value chains. Gwangju, Korea. <http://www.oecd.org/dataoecd/27/63/36884852.pdf>

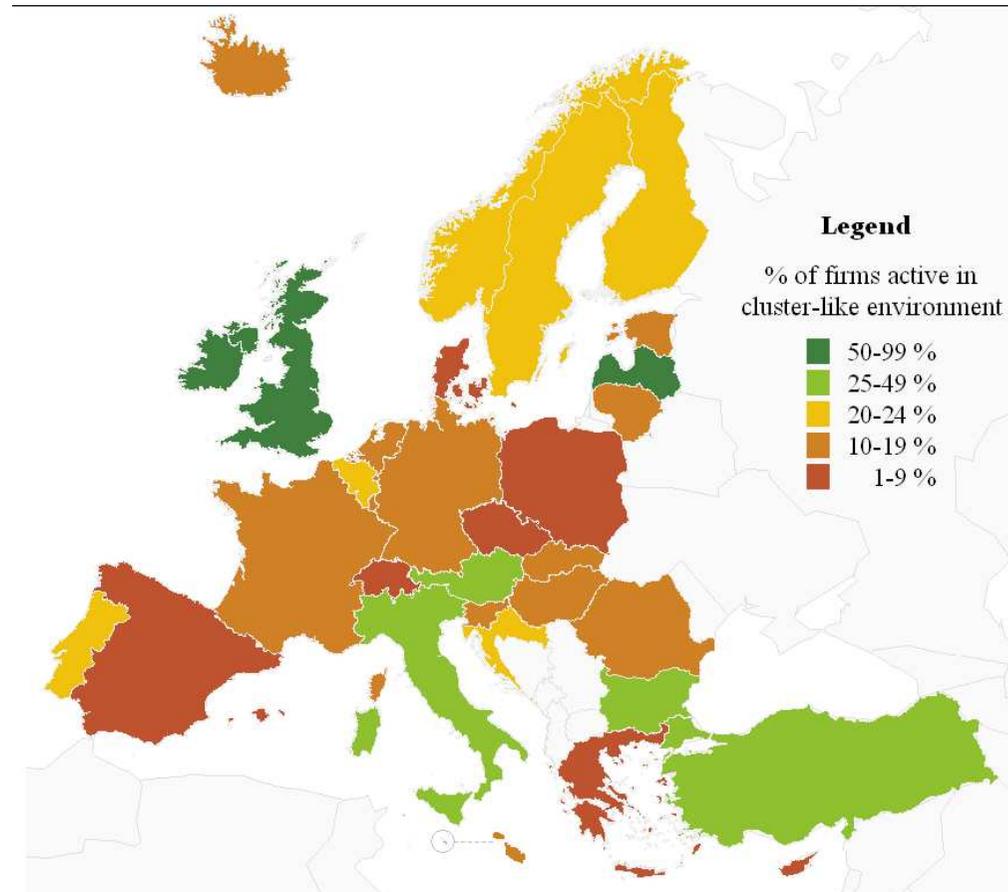
Multinational companies, as opposed to the public belief, also need clusters containing SMEs

- Cluster forming initiatives in Western Europe start out from SMEs, thus it is characterised by building from bottom-up. Firms operating cluster-like attain a profitability increase of 2-4 %, and the SME-survival ratio is much higher than of individually operating enterprises.
- A cluster is not only a driving force of economy and innovation, but a possible way of strengthening social systems, **local communities**, self-organisation as well. Enterprises have recognised that staying on feet in a strong global competition is only possible with a **local background**, relying on their business partners.
- The **need of a cluster-based economic policy** is being mentioned more and more often, so that SMEs would be able to gain strength – this means concrete support as well (clusters are subsidized by the state, EU funds).
- The information- and communication-flow, **joint appearance**, education, international appearance, PR and marketing, common database may be an advantage.

The successful managing of a cluster requires transdisciplinarity: not only different and partly overlapping fields, but a process that needs expertise in one after the other.

Clusters by now have a tradition not only in the United States, but in Europe as well

- An average of every 4th company (with min. 20 employees) **within the European Union** operates in a cluster-like environment, that is, in tight cooperation with other local enterprises
- According to the latest Gallup survey, most clusters in Europe can be found in the UK (**84%** of firms), followed by Latvia, and by Ireland
- Clusters require responsibility for acting in a coordinated way for the sake of shared objectives, without giving up participants' own identity and special interests



Cluster-oriented thinking supposes and strengthens a new attitude, a different culture that may have a positive effect on society.

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Besides knowledge and abilities, creativity becomes so important, that we can speak of the “creativity economy”

*“The game is changing. It isn't just about math and science anymore. It's about **creativity**, imagination, and, above all, **innovation**.”*

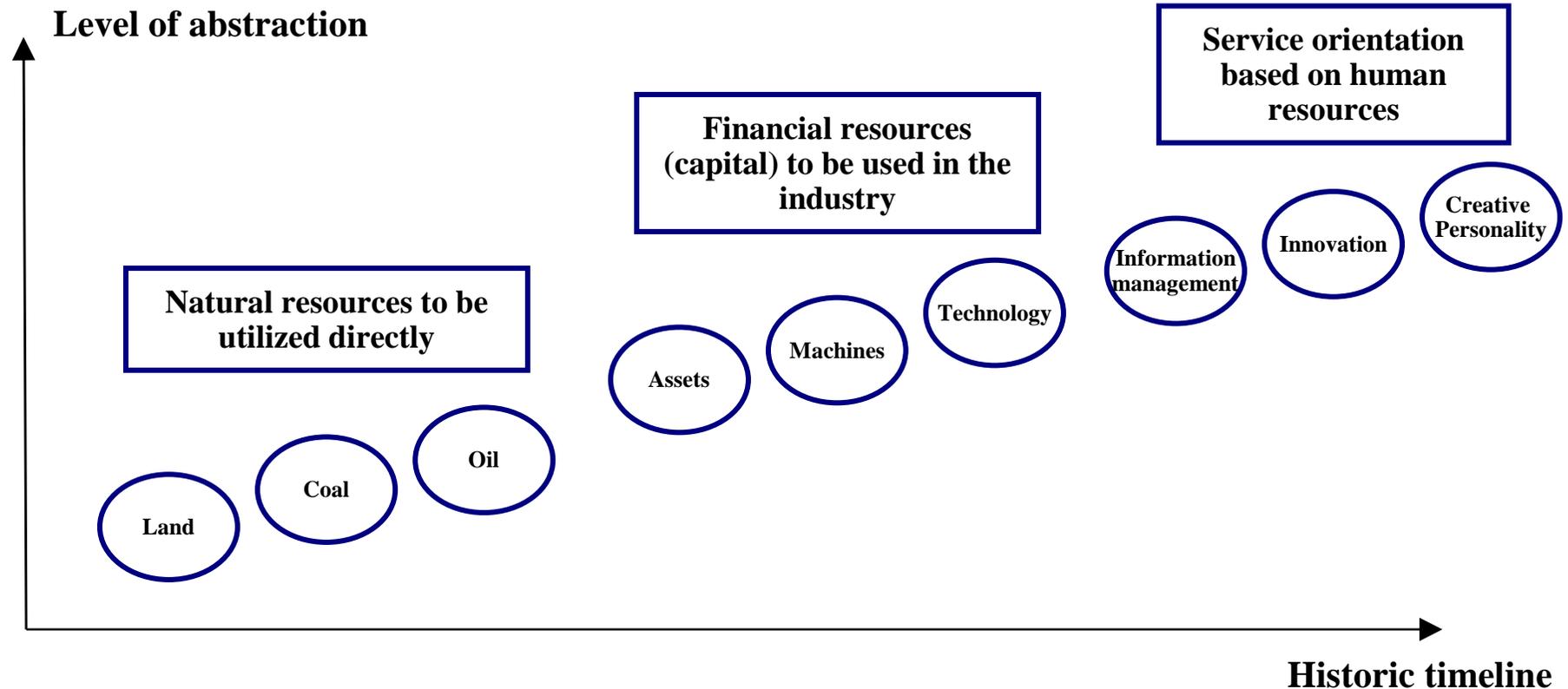
Get Creative! By Business Week, August 1, 2005.

*“The study (by Weber Shandwick and KRC Research) – involving the participation of 104 U.S.-based corporate executives – revealed that business success will likely be increasingly reliant on **creative business processes, the development of new and innovative products and services**, and product delivery through alternative marketing and communications channels.”*

Burst of creativity By Budapest Business Journal, February 5, 2007.

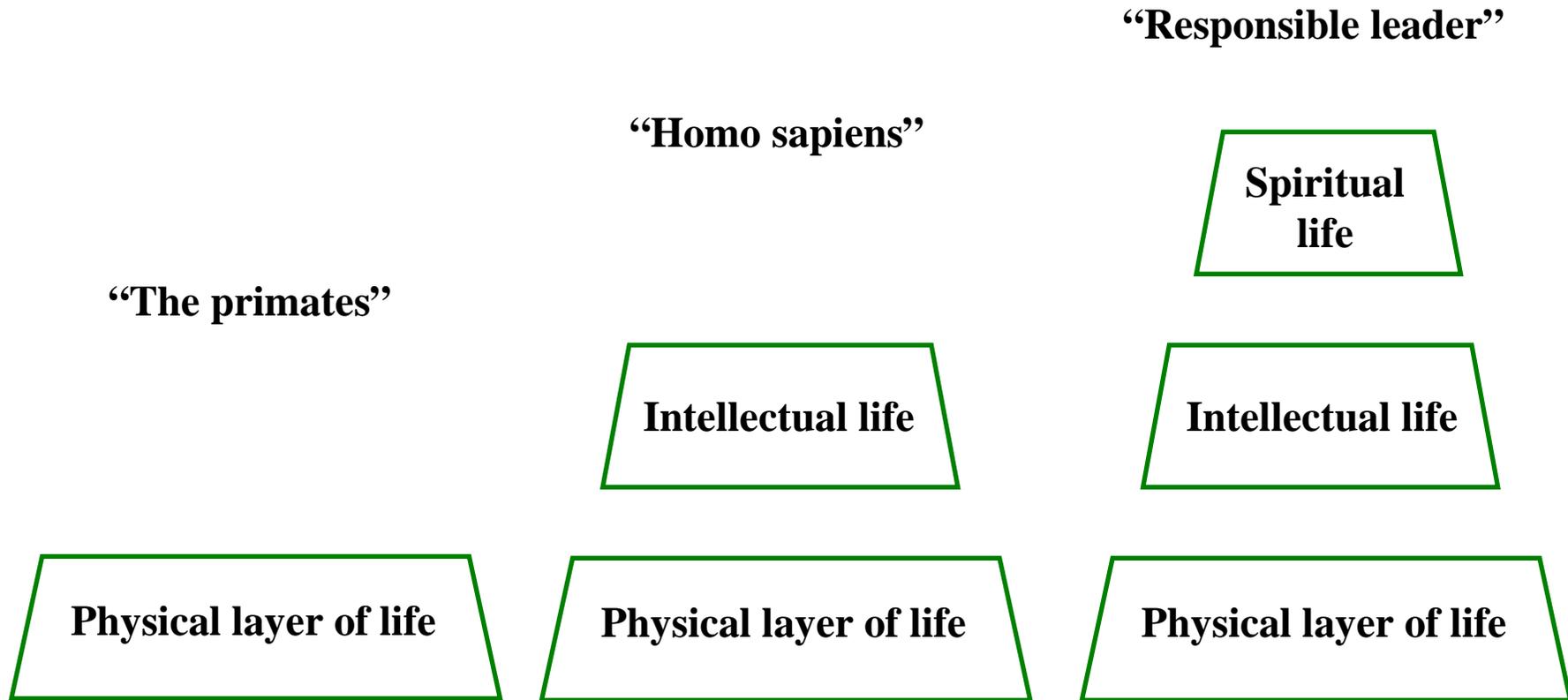
As it is people who do business, success depends at least as much on the creativity of the person, as on that of processes!

The drivers with the proportionally highest value creation impact have changed in history – and show a trend!



More and more is expected from managers – and what about responsibility?!

Managers can think and act in three ways – depending on which level their driving forces come from

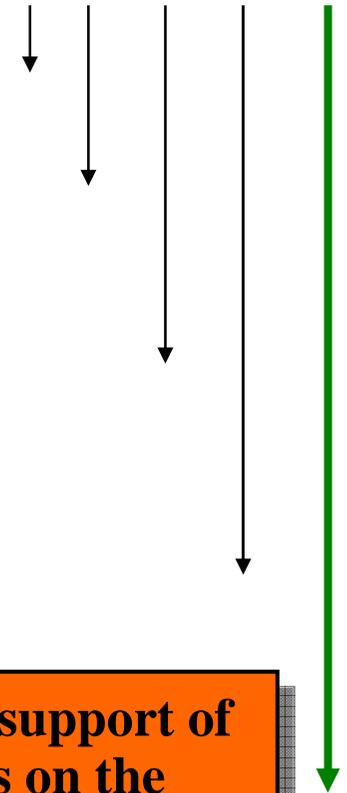


**Social responsibility requires a broader view, involving spiritual life as well:
The ideal leader is a professional with spiritually driven personality**

Responsible leadership forces us to switch from the shareholder- to a **holistic stakeholder-approach** (the real “common good”)

Only the extended stakeholder-approach can assure a balanced responsibility:

- Owner – founder, ultimate decision maker, who keeps the entity alive
- Managers – responsible for the operation
- Customers – paying for the products and services
- Employees – delivering added value
- Vendors – to be relied on (quality, time, cost)
- Creditors – believing in our future
- State – representing the macro environment (tax, etc.)
- Micro environment – local responsibility
- Next generation – environment protection, sustainability, the human environment



... Some, like the Focolare Movement, complete this list with the support of the poor of the community – where they draw the line depends on the responsibility of managers

By combining the three layers with the broadest stakeholder approach we end up with the **Holistic Stakeholder Value Matrix**

Stakeholders Layers	Shareholder	Employees	Customers	Vendors	Society	Future generations	The poor
Spiritual							
Intellectual							
Material (Financial)							

Moreover, firms are increasingly being evaluated according to how responsible they are!

I also want to point out here that CSR is emerging as one of the most important components in terms of establishing a company's reputation. This is really important if you consider that reputation alone contributes to roughly 63% of a company's market value. We found this out in a separate survey.

Ervin Szűcs, Regional Director of Weber Shandwick, BBJ, February 2007

In the case of a cluster, all member firms participate in good reputation!

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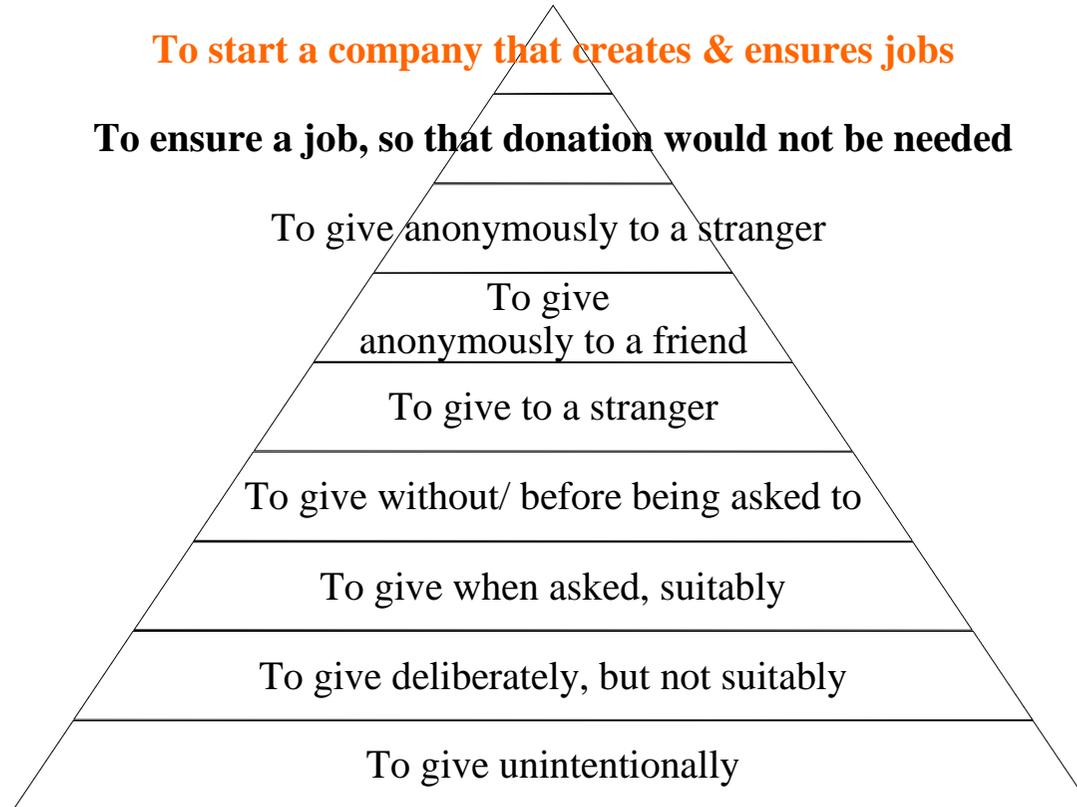
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We aim at combining responsibility and creativity with everyday business life

- Proactive Management Cluster consists of companies which are run by entrepreneurs who developed the theory and targeted to achieve a proven track record on how to combine
 - Alignment to market environment
 - Multiple bottom-line value creation
 - Sustainable cooperation among for-profit and non-profit entrepreneurship in clusters.
- The companies focus on different activities (from strategy consulting over software development to innovation management), as sovereign entities, sometimes competing even with each other, while running joint projects, too.
- They share the goal of aiming the “holistic stakeholder value-matrix” both within their organizations, as well as by having founded and supporting a non-profit entrepreneurship within the cluster.

The synergy of competences spread within the cluster covers all stakeholders.

It was realized already in the Middle Ages, that it is not (only) charity, but work-opportunity that should be & is worth giving – which we further developed, adjusted to our times



The respect of dignity can best be realized by ensuring work – this is how rehabilitation becomes, beyond the existential aspect, a constructor of humanity as well.

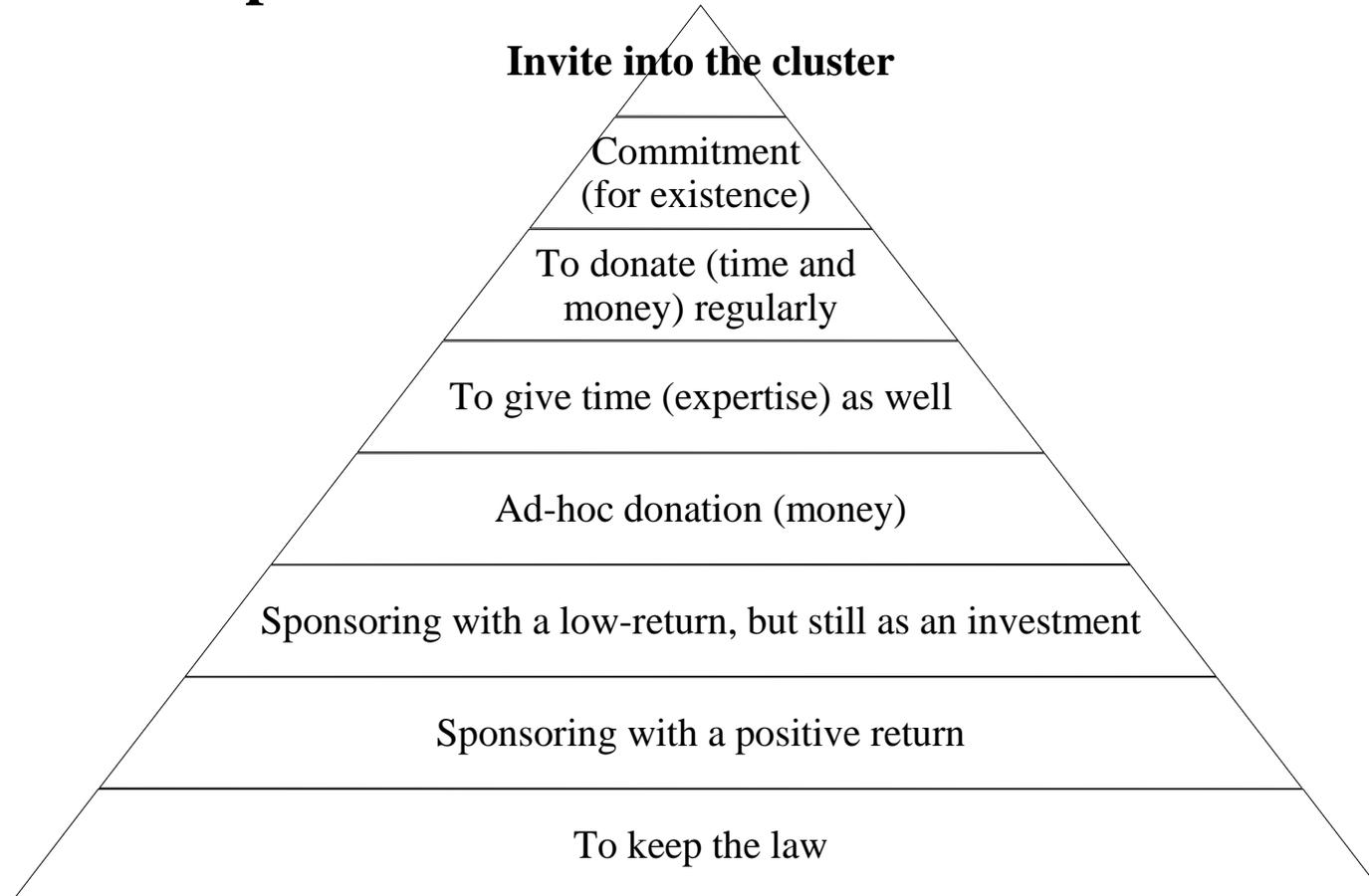
Sunflower strives for offering something more “permanent” than charity

Employment rehabilitation: „Reintegrating those people into the society, who have lost their creative work, everyday activity, organizing principles for life, self-support, livelihood etc., through the tailor-made use of employment tools and through utilizing their available skills and developing their competences.”

- Outsourcing based on “**work teams**” (unified outwards, supporting inwards) for the sake of employment rehabilitation is a possible, tried and tested way, acknowledged with the award “The Social Entrepreneur of the Year 2007”, issued by the Schwab Foundation (founding organizer of the World Economic Forum in Davos)
- **Its goal is integrated employment rehabilitation.** Sunflower provides a positive “experience” of the disabled in order to reduce the lack of knowledge, diminish prejudice and assist them in their complete reintegration by experience. Thus the notion “disabled persons” loses its significance, the individual selected through experience becomes a sterling colleague.
- Its mission defined by the founders:
 - To offer labour market services for the disadvantaged (and especially the disabled or impaired) people and thus assist them in finding employment in a certain region. **To work together with them and for their sake.**



We do not just start up a socially responsible company, but consider it as a partner and invite it to the network



Businessmen and their companies can add more value to the society by creating social ventures than just donating charity organizations.

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