Cluster Development TOOLKIT

PHASE III - IMPLEMENTATION

seda®

Saskatchewan Economic Development Alliance

Phase III Implementation

We suggested that potential business models and strategies be introduced in Phase II.

In Phase III, the objective is to formalize a strategic plan (or action plan) as well as take further steps to a formal business model and leadership team (governance and management). Two additional tools are provided to support planning for long-term cluster viability: The **Cluster Business Model Evolution** and **Financing Model** templates are found on pages 3 and 4.

Tips on **Action Planning; Leadership** and **Measuring Cluster Performance** are also included in this overview of Phase III.
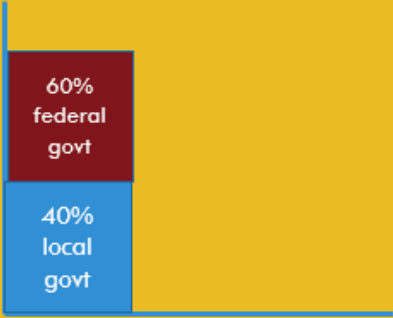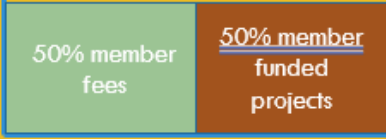
Fostering a collaboration or industry cluster requires flexibility and an open, transparent process. Developing guidelines to steer cooperation, communication and sharing of information is recommended.

Work towards a viable business model

As the cluster business model and strategic plan is developed, planning for financial and operational stability is essential. What would happen if you lost one of your main financing sources? How could you evolve from a public to a private financing model?

The following example utilizes the **Cluster Business Model Evolution Template** found available in the toolkit as a downloadable document. It illustrates how a cluster can evolve its business model over a 10-year period, going from 100% government to 100% private funding. Sourced from Strategy Tools.

YEAR: 2015	**YEAR:** 2020	**YEAR:** 2025
TOTAL BUDGET: $100,000	**TOTAL BUDGET:** $300,000	**TOTAL BUDGET:** $800,000
FINANCIAL STRESS: HIGH	**FINANCIAL STRESS:** MEDIUM	**FINANCIAL STRESS:** LOW
TARGET: $125,000 NEXT YEAR	**TARGET:** $350,000 NEXT YEAR	**TARGET:** $850,000 NEXT YEAR
ACTION: The cluster is too reliant on government financing and this needs to change. Current support is low causing high financial stress. This is acceptable during the startup phase but is not sustainable.	**ACTION:** Five years on, the cluster has doubled its annual budget but more importantly switched from 100% public financing to 40% public and 60% private. Membership fees and member financed projects now account for $100,000 each.	**ACTION:** Five years later, the cluster has matured and reached an annual budget of $800,000 employing five people full time. The government funding is now gone and the cluster is fully financed on private industry terms.

Year 2015 chart: 60% federal govt, 40% local govt

Year 2020 chart: 40% local govt, 30% member fees, 30% member funded projects

Year 2025 chart: 50% member fees, 50% member funded projects

Building Blocks to Financing

The following example template is available in the toolkit as a downloadable document and can be used to build a financial model for the cluster.

CLUSTER FINANCING MODEL TEMPLATE

SOURCE: STRATEGY TOOLS

CLUSTER:	FUNDING ROUND:	YEAR:

FUNDING

PRIVATE INDUSTRY FUNDING

Insert:
$ Total private industry funding

Founding partners	$ Founding partners
Membership fee	$ Membership fee
Programs	$ Programs
Events & conferences	$ Events & conferences
Capital raise %	$ Capital raise %
Venture fund	$ Venture fund
Rent (office space, lab space)	$ Rent (office space, lab space)
Reports & analysis	$ Reports & analysis
Other	$ Other

PUBLIC FUNDING

Insert:
$ Total public funding

National cluster program	$ Federal funding
National government	$ Provincial funding
National financing programs	$ Local government funding
Regional government	
Regional financing programs	
Local government	
Local financing programs	
Other	

PROJECT FUNDING

Insert:
$ Total Project funding

Industry project financing	$ Industry
Public project financing	$ Public
Other	$ Other

OTHER FUNDING DETAILS

Insert:
$ Other

TOTAL FUNDING $

Insert:
$ Total all funding

COSTS

START-UP COSTS (ONE TIME)

Insert:
$ Total start-up costs

Advisory services	$ Advisory services
Strategy development	$ Strategy development
Design & branding	$ Design & branding
Communications	$ Communications
Other	$ Other

STAFFING COSTS (FULL TIME, PART TIME)

Insert:
$ Total staffing costs

CEO	$ CEO
Full-time staff	$ Full-time staff
Part-time staff	$ Part-time staff
Board compensation	$ Board compensation
Other	$ Other

OPERATING COSTS

Insert:
$ Total operating costs

Office rent	$ Office rent
Venue rent	$ Venue rent
IT infrastructure	$ IT infrastructure
Marketing & communications	$ Marketing & communications
Travel & lodging	$ Travel & lodging
Programs	$ Programs
Consulting services	$ Consulting services
Other	$ Other

CLUSTER PROJECT COSTS

Insert:
$ Total cluster project costs

Cluster collaboration projects	$ Cluster collaboration projects
Innovation group projects	$ Innovation group projects
Member-led projects	$ Member-led projects
Other	$ Other

TOTAL COSTS $

Insert:
$ Total all costs

ACTION PLANNING

All activities in the action plan will be joint activities.

WHO?

Ideally, the cluster actors themselves should develop the plan. However, an intermediary or cluster facilitator may require to initiate the process.

A participating industry association or institution could undertake this role.

WHY?

Any action plan for a cluster should aim to achieve two main goals:

1. Identified key problems are solved.

2. Social Capital will be built simultaneously.

HOW?

3 PRINCIPLES

No. 1: Work out the implementation road map with complete involvement of all stakeholders and in the process:

- Define returns and risks
- Agree on a resource sharing formula
- Visualize conflicts
- Pre-resolve/manage conflicts
- Identify exact job responsibilities and a monitoring plan

No 2: Finalize the exact network of "win-win" stakeholders for each activity They include: promoters, implementers and supporters.

No 3: See that support is provided as needed and ensure efforts are monitored for successful expansion and replication of efforts.

Action Plan Document

1. Cluster/network status before intervention - half a page

2. Vision of the cluster/network

3. Major outcomes of previous years

4. Description of past activities

5. Overall strategy and objectives for the current year

6. Activities in the current year

Components of the Action Plan

- Activity name

- Target beneficiary

- Implementation sequence

- Responsibility

- Resources needed

- Contributions by participants

Taking Action Checklist

1. Ensure the activity aligns with the vision and strategy

2. Initial focus: result-oriented, short-run, demand-led

3. Focus on only group-based activities

4. Add multiplication of short-run activities later

5. Break long-run activities to short-run activities and introduce them as demand-led ones

6. Induce demand for supply-oriented activities

Characteristics of a Good Action Plan

Flexible to changes

Transparent

Representative of cluster actors

Realistic

Resistant to internal and external undue pressure

Firmness of action plan improves with time

Types of Actions

Trust building: meetings, exposure visits, expert lectures, seminars/workshops

Pilot activities: expert lectures, seminars/workshops, arranging demonstration of new technology

Regular activities: participation in exploratory activities for marketing, Input purchases, quality up training/consultancy, sourcing international expertise, skill up initiatives

Strategic initiatives: brand building, laboratory creation, information centre, product mix selection, R&D centre, technology upgrade, finalization of best-suited land and plan.

Capacity building: network formulation, association/ institution building/ restructuring, exposure visits (national and abroad)

Others: motivating liaising, case study preparation, monitoring, understanding politics, developing new linkages, analyzing gaps.

Tools Commonly Used in Action Items

- Exposure visits
- Awareness programs
- Hiring business development consultants for working with groups
- Sharing best practices through group meetings
- Dissemination of best practices through post-intervention seminars
- Demonstration of solutions by inviting solution provider and arranging a seminar
- Sharing risks while going for new solutions
- Locating solutions through brainstorming meeting

LEADERSHIP

Governance versus Management

It may take some time before cluster members decide how the cluster should operate, what its objectives should be and how those will be achieved. As the cluster develops, governance arrangements will become clearer, and can be documented in a cluster governance agreement. However, if governance discussions take place too early in the life cycle of the cluster, there is a risk that the strongest and the most powerful members will dictate the governance arrangements without a clear picture of how the cluster will function over the next several years

Cluster governance should not be equaled to cluster management. While cluster management is about the actual management of the cluster, cluster governance is about ensuring that the cluster is well managed. Cluster governance represents the interests of cluster stakeholders (e.g., universities and research institutes, large and small companies, government, supporting structures etc.), while cluster managers strive to serve the needs of cluster stakeholders.

Cluster management addresses day-to-day cluster activities such as planning, allocation of human and financial resources, monitoring cluster progress etc. Governance, in turn, among others refers to appointing cluster managers and evaluating their performance, setting the vision and strategy of the cluster and approving action plans.

Cluster governance is the formalization of relationships among cluster members, and it is not immediately present once the cluster is established.
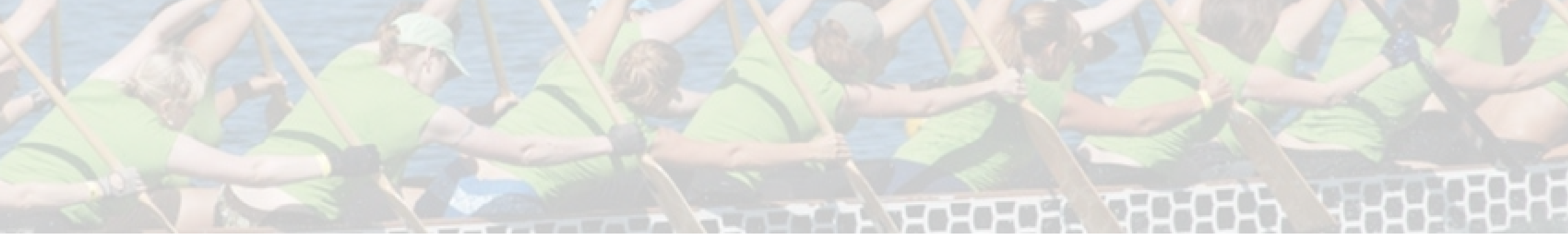
Building Trust and Social Capital

The propensity of individual cluster stakeholders to engage in joint actions is important, as is w these interactions are organized and embedded into the ecosystem

Good governance in a cluster allows for coordinated and effective planning. Through coordinated joint actions the cluster can reach a higher level of performance.

Good performance in turn increases the cluster's "social capital stock" (embodied in the trust, shared values). This raising "social capital stock" tends to reinforce the good governance in the cluster.

Trust is the key trigger of collaboration:

- ✓ It allows to identify common interest beyond competition

- ✓ It brings down coordination costs

Establish an unwritten agreement to:

- Share all relevant information for an activity or objective

- Strive for functional TRUST

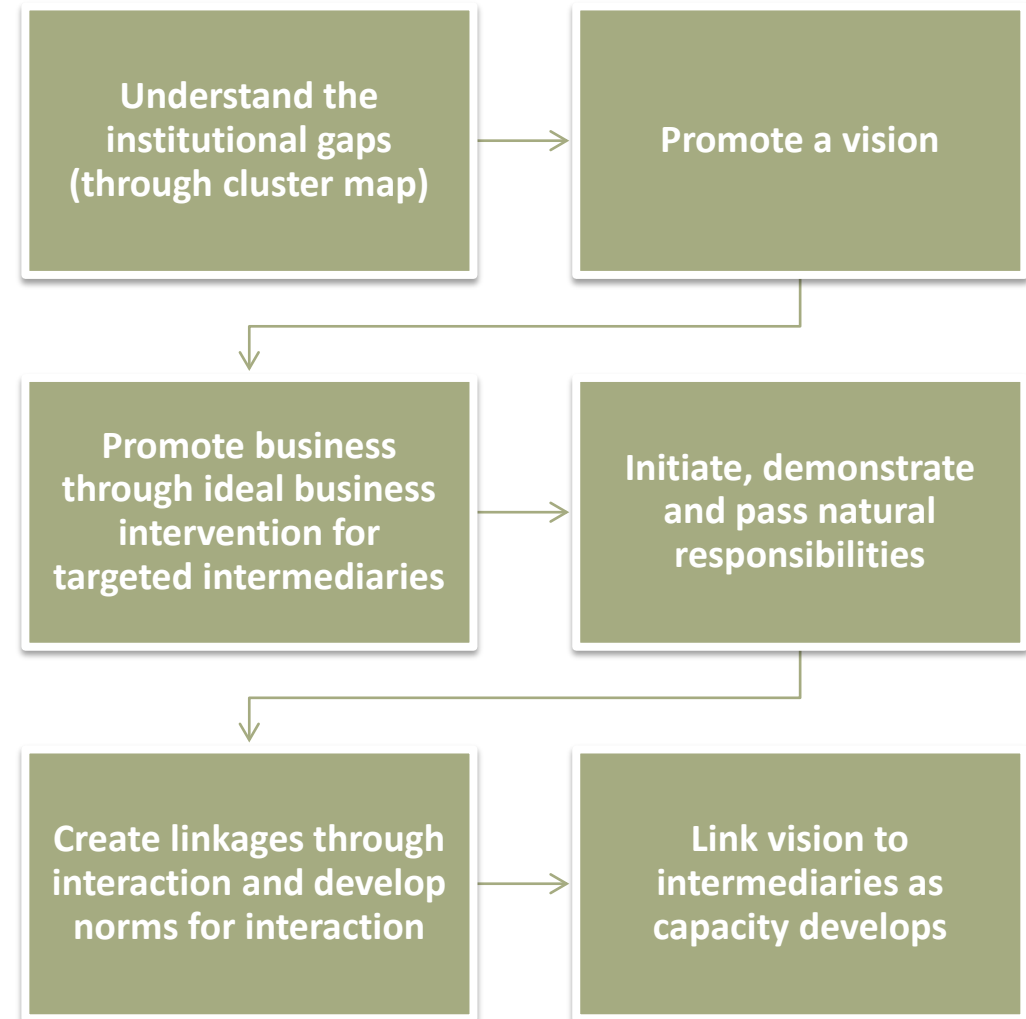- Provide direct or indirect business gain to cluster firms

12

Enhancing Social Capital

o   Honour commitments

o   Be equitable and open

o   Hand hold

o   Stress and share positives,; do not share negatives

o   Share completely or not at all

o   Silence negative critics

o   Take innovative routes with non-starters

Tools for trust Building

Promotion of forums

Cross fertilization of ideas through the umbrella organization

Conduct and disseminate awareness on joint actions

Create cluster leaders who can conceptualize and implement projects

Encourage agglomeration potential

13

Steps to Good Governance

Types of Cluster Governance

a. Purely market driven – no intermediary

b. Representative intermediary of all stakeholders

c. Several intermediaries

d. A mix of the above

Understand the institutional gaps (through cluster map)	**Promote a vision**
Promote business through ideal business intervention for targeted intermediaries	**Initiate, demonstrate and pass natural responsibilities**
Create linkages through interaction and develop norms for interaction	**Link vision to intermediaries as capacity develops**

The Cluster Leadership Map is relevant to leadership in clusters of any size. From small emerging clusters, to global superclusters, the Cluster Leadership Map can assist leaders at all levels to improve their leadership skills.

CLUSTER LEADERSHIP MAP TEMPLATE

LEADERSHIP LEVEL

Leadership Level	SELF-ASSESSMENT										BIGGEST STRENGTHS	ITEMS TO IMPROVE
Visionary Leadership	1	2	3	4	5	6	7	8	9	10		
Network Leadership	1	2	3	4	5	6	7	8	9	10		
Strategic Leadership	1	2	3	4	5	6	7	8	9	10		
Influential Leadership	1	2	3	4	5	6	7	8	9	10		
Administrative Leadership	1	2	3	4	5	6	7	8	9	10		
Member-Focused Leadership	1	2	3	4	5	6	7	8	9	10		
Operational Leadership	1	2	3	4	5	6	7	8	9	10		
Self Leadership	1	2	3	4	5	6	7	8	9	10		
Overall Leadership	1	2	3	4	5	6	7	8	9	10		

SOURCE: STRATEGY TOOLS

This Photo by Unknown Author is licensed under CC BY-ND

MEASURING PERFORMANCE

Operationalizing Performance Measurement

When working in a collaborative, establishing a process and measures to monitor activities and ROI is essential.

Here are baseline steps to ensure accountability in the cluster action plan and activities.

1. Accountability and Learning: Consult evaluation and final reports of similar projects.

2. Clarify project objectives and fine-tune causal chain

3. Identify possible Risks and implicit Assumptions (R&A)

4. Identify key project stakeholders and corresponding information needs

5. Select KPIs to measure results

6. After a work plan and corresponding results are defined, confirm KPIs and select data collection methods

7. Determine frequencies for data collection

8. Assess R&As and identify suitable contingency plans

9. Determine responsibilities for data collection, analysis and reporting

10. Finalize Monitoring Plan

11. Collect baseline data

12. Set realistic target values for outcome and impact indicators based on baseline

13. Revise work plan

14. Fine-tune indicators to measure progress on expected outputs, outcomes and impacts

15. Monitoring plan is operational and resourced

16. **Continuously monitor** results and R&As

17. **Regularly report on** results and take **follow-up action** (adjust work plan/ monitoring Framework)

18. Assess achievements and lessons learned

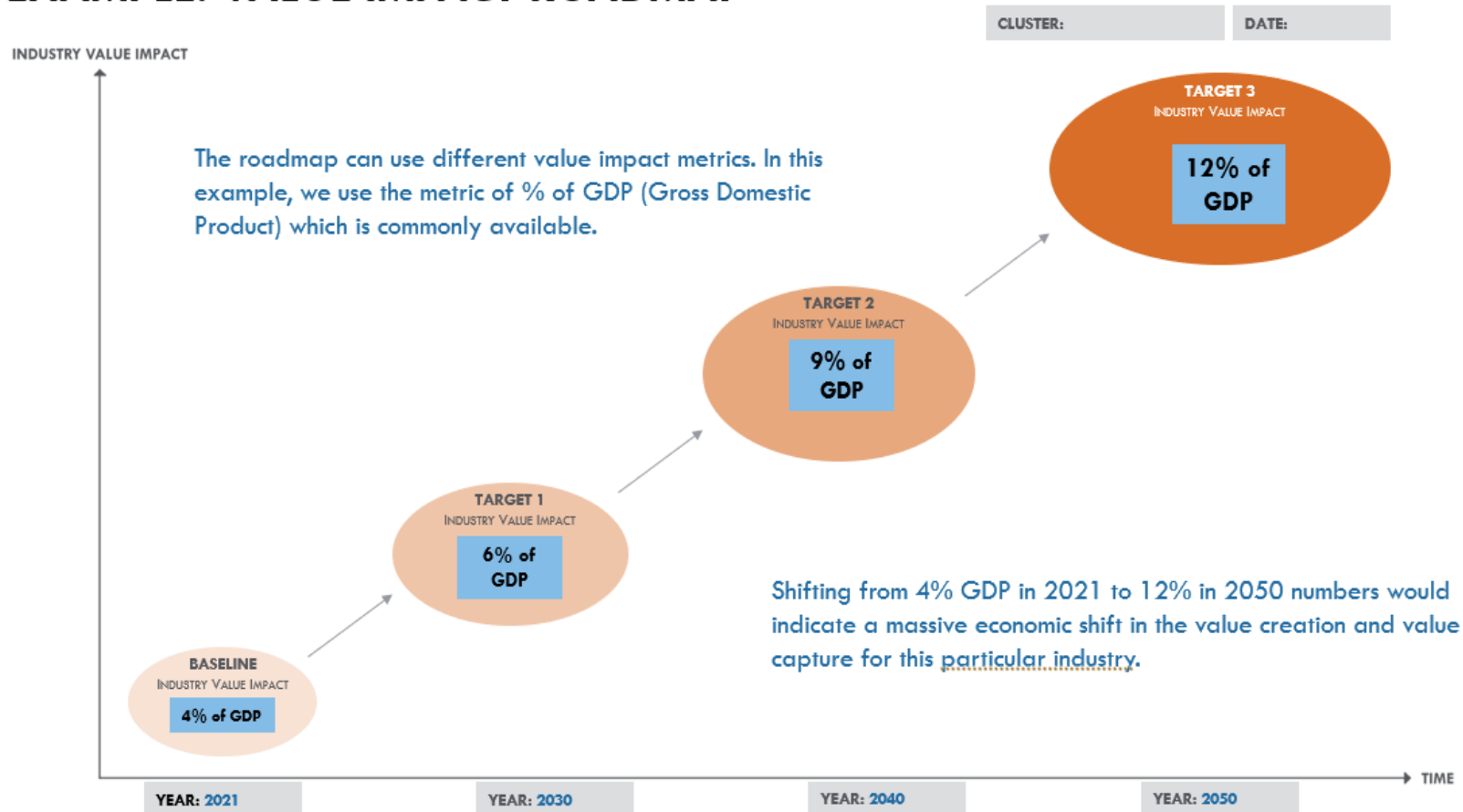19. Provide monitoring data for evaluation

Basic Monitoring Plan Format

	WHAT?	FOR WHOM?	WHEN?	HOW?	WHO?		
Result Level	Key Performance Indicators (KPIs)	Decision Maker(s)	Frequency	Data collection method/tool	Person responsible for data collection	Format and frequency of reporting	Responsible person for aggregation
IMPACT							
OUTCOME							
ACTIVITIES & OUTPUTS							
RISKS & ASSUMPTIONS							

The Value Impact Roadmap

Often spaced over four time periods, most clusters would want and need to take a long view on the clusters' impact. Every cluster needs to set its own unique targets and to ensure these targets are commonly available, easily understood and can be measured over time. Sourced from Strategy Tools, the Value Impact Roadmap represents future potential and the outcome or impact to be created.

EXAMPLE: VALUE IMPACT ROADMAP

CLUSTER: DATE:

INDUSTRY VALUE IMPACT

The roadmap can use different value impact metrics. In this example, we use the metric of % of GDP (Gross Domestic Product) which is commonly available.

TARGET 3
INDUSTRY VALUE IMPACT
12% of GDP

TARGET 2
INDUSTRY VALUE IMPACT
9% of GDP

TARGET 1
INDUSTRY VALUE IMPACT
6% of GDP

Shifting from 4% GDP in 2021 to 12% in 2050 numbers would indicate a massive economic shift in the value creation and value capture for this particular industry.

BASELINE
INDUSTRY VALUE IMPACT
4% of GDP

TIME

YEAR: 2021   YEAR: 2030   YEAR: 2040   YEAR: 2050

Choosing Key Performance Indicators

The United Nations Industrial Development Organization (UNIDO) developed a comprehensive excel tool to monitor cluster performance. It is available to download as part of the Phase 3 Toolkit.

The UNIDO tool provides:

1. Core performance indicators by result level using outputs and outcomes approaches
2. Economic, social and environmental performance indicators
3. Measurements targeted to cluster development in underserved or disadvantaged markets

Associated Resources:

Cluster Financing Model Template
Cluster Business Model Evolution Template
Cluster Leadership Map Template
Monitoring Plan Template
Value Impact Roadmap Template
UNIDO Key Performance Indicators Inventory

Material sourced from:
- Cluster Navigators
- UNIDO