



CLUSTER COMPANIES IN CHINA'S ZHEJIANG PROVINCE - PART I

Strength in numbers

By Jean-Pierre Jeannet - June 2009

IMD

Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11

Fax: +41 21 618 07 07

info@imd.ch

<http://www.imd.ch>

To many of us an industry cluster suggests the grouping of a few major firms in a region or country. But in China industry clusters operate on a far greater scale. In the first of three articles, Professor Jean-Pierre Jeannet explores the nature of industry clusters in China's Zhejiang Province...

Many of us are familiar with the concept of industry clusters and may be aware of Michael Porter's framework, *The Competitiveness of Nations*. But industry clusters in China are altogether different. Rather than a grouping of a few major firms by region or country, industry clusters in China can represent several thousand enterprises, from small to large, in a limited geographic area and all engaged in the same sector. From silk ties to socks to auto accessories – each is part of a cluster in China.

It's an interesting concept and one that I have been keen to explore further. So as part a recent sabbatical at Babson College, my US home university, I was able to spend four weeks in Hangzhou, Zhejiang Province hosted by a leading Chinese scholar on entrepreneurship, Dean Zhong-Ming Wang, and working with a class of doctoral students.

My aim? To visit the leading industry clusters in Zhejiang Province, pick a leading company in each cluster and find out what impact the recent financial crisis had had on them and what their strategies were to move forward.

The research resulted in some 10 cluster reports and 15 company case studies in the early stages of development. With each company asked to indicate any major issues, I was able to see some patterns emerging.

Business and government

In Zhejiang province [1], the provincial government has selected about a dozen clusters for priority development and tasked the local or municipal governments with cluster development. Substantial funds are made available for investment into cluster infrastructure, ranging from logistics all the way to training of technical staff. In some instances, such as the silk tie cluster, they are looking into creating an internal market for products and even creating brands owned by the cluster.

Each cluster has an industry association, and this association works closely with the local government. Talk has been of creating conditions for mergers, and assuring enough companies of critical mass.

In Shenzhou, I was able to visit the silk necktie cluster where more than 1,000 firms manufacture silk ties. The city's young mayor explained in English how this worked. He was eagerly discussing how and if companies in this cluster should move from OEM business model to a B2C business model, whether they should use e commerce, open up shops, and

how they might divide work within the cluster and share a common technology platform for key process steps, such as dyeing silk.

No fear of contact between business and government here, just the emergence of what I would call "cluster management practice" that goes beyond what we see in other parts of the world.

I had expected that the global financial crisis might have had an impact on export-oriented sectors. But I had not expected the same mayor to tell me how a less profit from land sales and a depressed stock market had reduced the city's tax revenue. It was clear that local revenues depend on further development of industry, and that cluster development is seen as a way to directly boost this.

Infrastructure

For the companies themselves, the cluster appears to provide their infrastructure. The process steps are subdivided, and many cluster companies are subcontractors to other cluster members. The cluster can absorb some of the roles usually done by large companies. The socks cluster, for instance, has developed a design capability that maintains thousands of sock designs. This allows a foreign company to quickly place an order, and if a new design is required, the cluster institute in charge can do this in seconds.

As individual companies come under pressure due to a downturn in exports, the clusters will be able as a group to add competitiveness to all members. They will assume far greater roles than a chamber of commerce in the industrialized world. At the same time, they will be making it difficult for members to leave the cluster for fear of foregoing benefits. Given the human resource constraint, it will be interesting to see how the clusters help their members overcome this.

So, do the benefits of being in a cluster outweigh the constraints? Find out more in my next article where I examine in more detail just how Chinese firms operate within an industry cluster...

Jean-Pierre Jeannot is Professor of Global Strategy and Marketing. He teaches on the Strategic Marketing in action (SMA) and the Orchestrating Winning Performance (OWP) programs.

[1] Zhejiang Province is a coastal province located immediately south of Shanghai

Population of about 50 million

Size is about equal to the country of Portugal

Capital is Hangzhou with about 6.5 million inhabitants

Long tradition in silk and tea industry

Home to some of the first free-market experiments of China

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