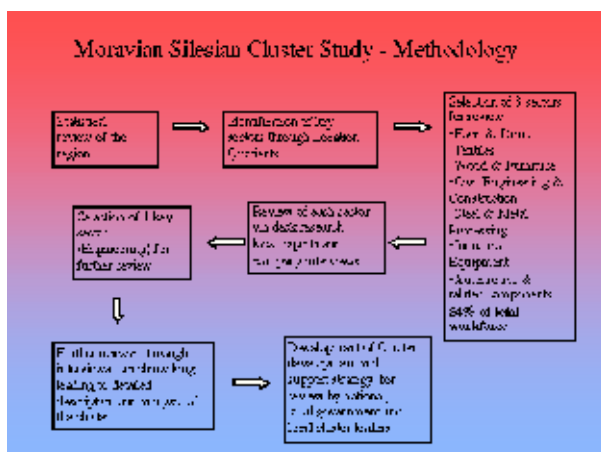


**Background**

In the 1930's the Ostrava, now the capital of the Moravian Silesian region, was a prosperous and competitive industrial centre with powerful coal and steel producers supporting a range of innovative and technologically advanced heavy engineering companies. Many prosperous industrialists lived and owned businesses in the region among them the Rothschilds. When the communists came to power in the late 1940's the industrial tradition continued but without the competition and investment that had driven the regions success, industries started to stagnate. By the early 1990's any competitive advantage that existed had largely disappeared. In its wake was a region with dying industries, heavily over-manned and under-invested having to deal with ancient and inefficient capital equipment, a hugely changed market place and environmental conditions that require massive remedial investments. As job losses started to climb in these once proud companies the service sector absorbed the best of the workers and unemployment remained below the national average. However, by the late 1990's unemployment started to rise as large employers faced an inability to compete in the global economy and those who were successful required new and different skills that many redundant workers were unable to provide. Today, in a region of 1.2 million, unemployment has passed 100,000 and is rising.

In an attempt to halt this tide the Czech government has spent much time and money in an attempt to help local industries adapt. Some new FDI has arrived to create new much needed jobs but the jobless trend continues to rise. In late 2001 the Czech Ministry of Industry and Trade, through CzechInvest, its award winning Investment Promotion Agency commissioned consultants to review the regions economy to test whether or not a different approach to supporting the regions economy through promoting clusters could provide a different and more effective approach to supporting the regions economy. PE International undertook the study between January and October 2002 by. As required by the terms of reference an important outcome was the preparation of proposals for further project support.

**M E T H O D O L O G Y      F      O R      C L U S T E R      I D E N T I F I C A T I O N**

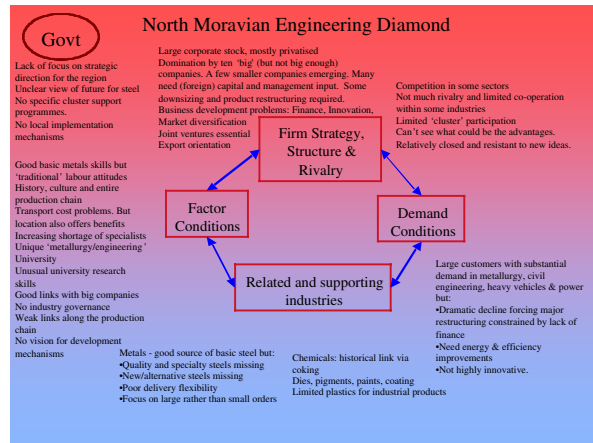


Lack of regional statistics posed a problem for the team. The methodology finally chosen to identify potential clusters involved the calculation of location quotients. Following analysis of these statistics 8 potential clusters were identified for review through a combination of desk research, focus groups

and individual company meetings. Once the Engineering cluster was selected, further more in-depth research was conducted to

enable development of an initial support strategy.

The consultants calculated that the core Engineering cluster contains some 600 companies employing in total about 46,000 workers but that this figure jumps to 800-900 companies and 60,000 workers if the full range of related and supporting industries are included. This is a significant size and it could be argued that it would be unrealistic to create a development strategy for such a diverse group of industries. Clearly more work will be required to identify more manageable groupings for future projects. However the research identified a number of key issues that were important to all companies. Many of these were summarised in the diamond created as a result of the analysis.



- Over-manning and Low Productivity.
- Under-investment.
- Market Diversification/ Inappropriate Product Portfolio
- Debt.
- Absence of Customer Contacts
- Lack of Marketing Orientation.
- Absence of a Service Culture.
- Corporate Integration.
- Developing Supplier/Customer Relationships.
- Managing R&D.
- Cash Flow Difficulties.

**KEY ISSUES FACING THE CLUSTER:**

A further issue that became apparent was an increasing dislocation of the local labour market. This was clearly illustrated by the inability of several local engineering companies to find qualified welders despite significant government investment in training and retraining.

**THE GOVERNMENTS' ACTION PLAN FOR CLUSTER DEVELOPMENT**

The initial proposals tabled by the consultants had the broad objectives of increasing company competitiveness and supporting diversification. They recommended the creation of a regional competitiveness centre, which would focus on supporting companies to upgrade their performance through a number of complimentary programmes. This was rejected as too radical in the short term although there is a chance that a national competitiveness agency of some sort may find favour in the years to come. Instead, in late 2002 the government accepted a 12-point programme, which it is planned will be implemented in the coming 12-18 months as financial resources permit.

The first of these was the organisation of a conference (January 2003) attended by the Minister of Industry and Trade where the findings were presented to over 100 senior

executives from companies within the cluster. This has subsequently led to the creation of a cluster governance body, (March 2003) the Moravian Silesian Engineering Federation, with an initial membership of 60 companies and a full time staff member. A regional engineering capacity register has been created (April 2003) with over 200 company profiles and this will be used as a marketing tool both to promote the cluster to potential investors and export customers as well as to improve local supply chain linkages within the region. Other programmes that are in the planning stage include the "excellence in engineering" programme. This will use benchmarking and the EFQM excellence methodology to help companies develop focused performance improvement programmes, which will be supported by both new and existing government support mechanisms. It is planned that these will include a technology venture fund to support spinouts and commercialise local R&D, support for increasing exports, the launch of Investors in People using engineering companies as part of a national pilot. Increased emphasis will be placed on the attraction of foreign investors whose supply needs are aligned as far as possible with the skills and capacity of local companies. Labour market supply and demand will be reviewed.

Finally a fully -ledged marketing campaign is currently being planned for the cluster that will promote the regions key strengths as being aligned with those of the cluster and aims to change the image of the regions engineering companies both inside and outside the region.