Innovation and Business Clustering: A Case Study of the Irish Furniture Industry

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ICLRD Conference, Co Monaghan, May 8th 2009

Aim of the presentation

- **To use evidence about innovation and clustering in the Irish furniture industry to reflect on rural enterprise issues**

Overview of Presentation

- **Innovation: What do we mean?**
- **Clustering: What do we mean?**
- **Clustering and innovation in the Irish Furniture industry**
- **Conclusions and implications for rural areas**

Innovation: What do we mean?

- **Two types of competition**
  - Price or cost based
  - New quality/cost combinations (innovation)

- **Innovation = temporary monopoly**

- **Types of innovation**
  - New product/service
  - New process
  - New markets
  - New ways of organising
  - New sources of supply

Clustering: What do we mean?

- **Economic benefits from clustering are called "agglomeration economies"**
  - benefits firms get from being in that place that they wouldn't get if in a more isolated setting

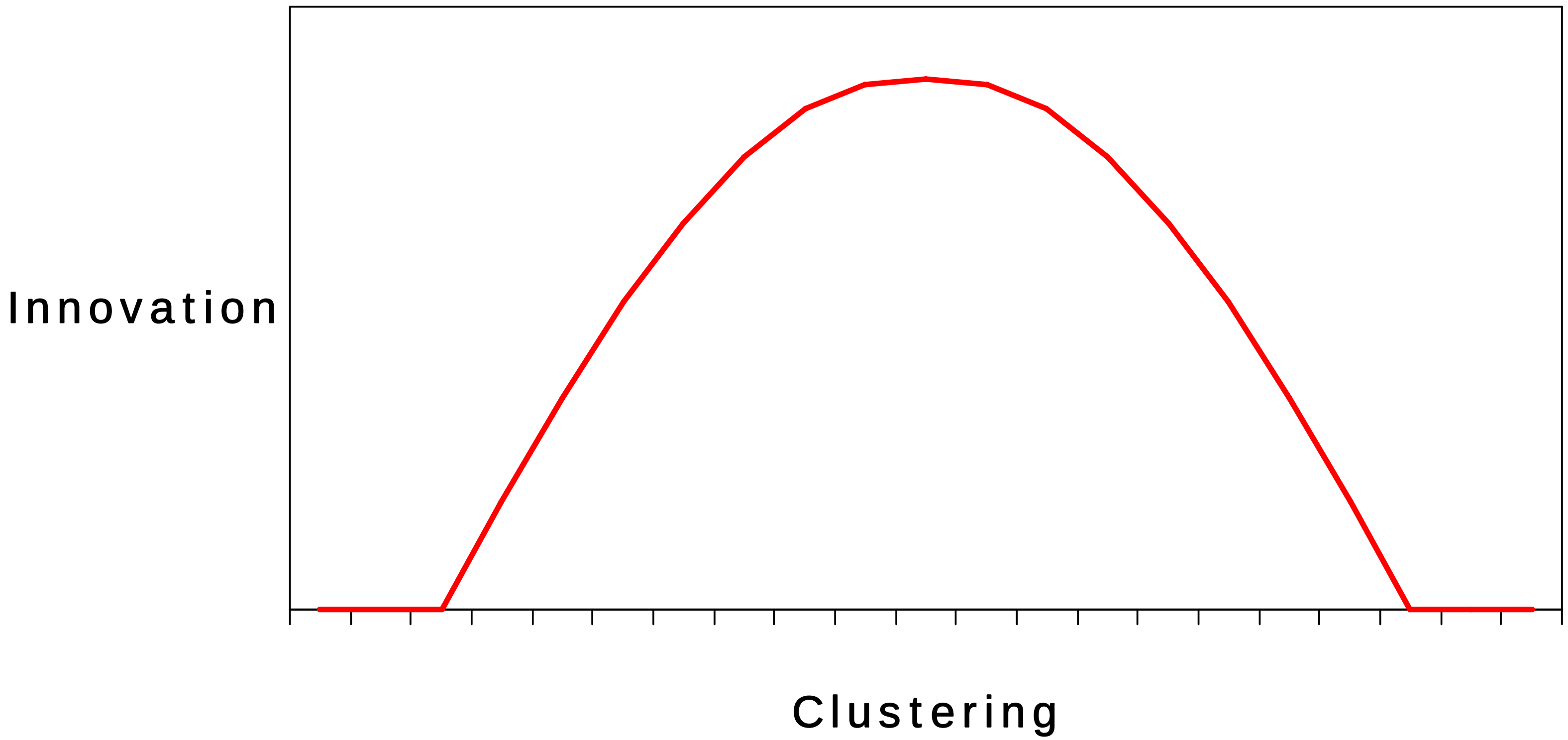
- **2 broad benefits from clustering**
  - Innovation-inducing
    - **technological spillovers**
  - Cost-reducing
    - **pooled labour force with special skills**
    - **development of specialised inputs and services**

Clustering: What do we mean? (2)

- **Irish industrial/enterprise policy promotes notion of clustering**
  - Culliton; Enterprise Strategy Group; Smart Economy
  - Little evidence of agglomeration economies
  - Irish manufacturing generally more dispersed since 1960s

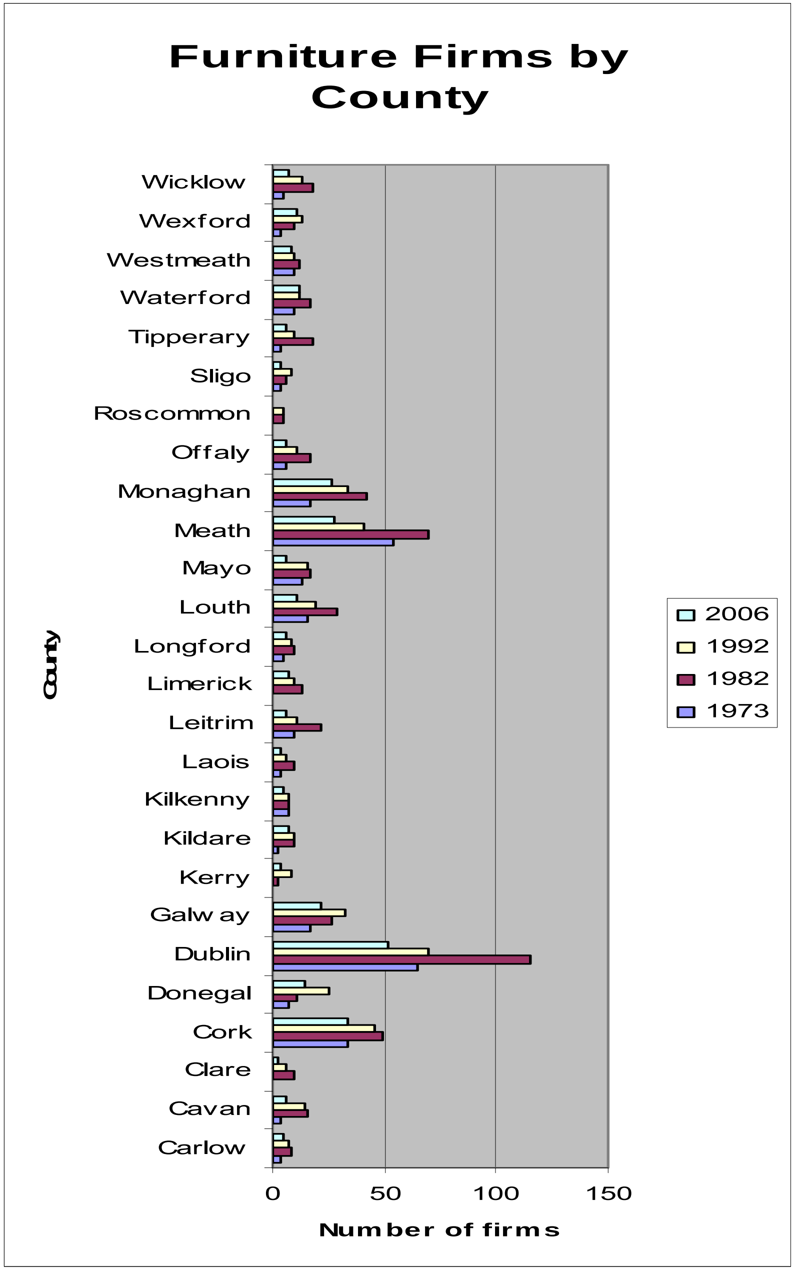
- **Also, downside to clustering**
  - Cost-increasing → congestion
  - Innovation-reducing → inertia, lock-in

Relationship between clustering and innovation

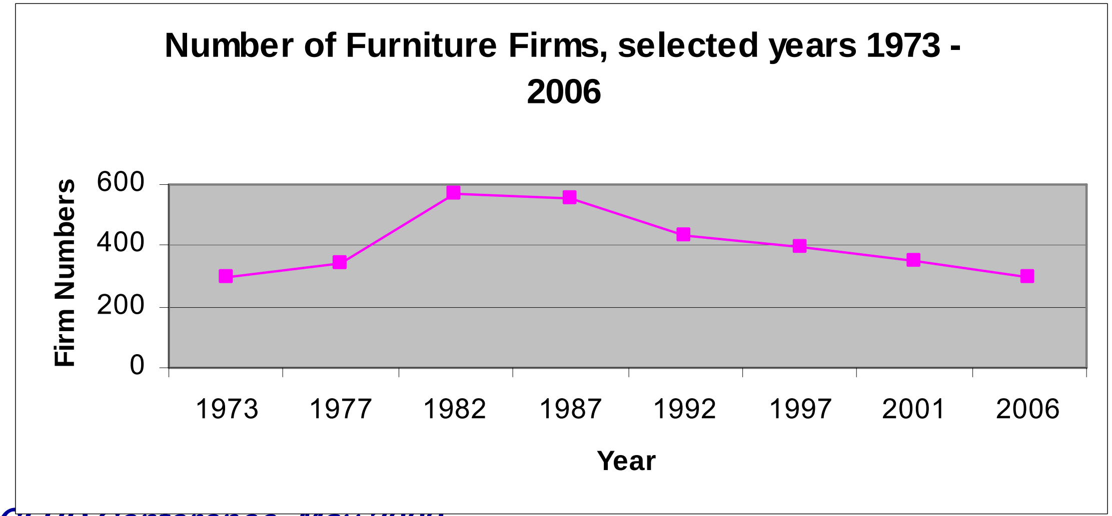


The Irish Furniture Industry

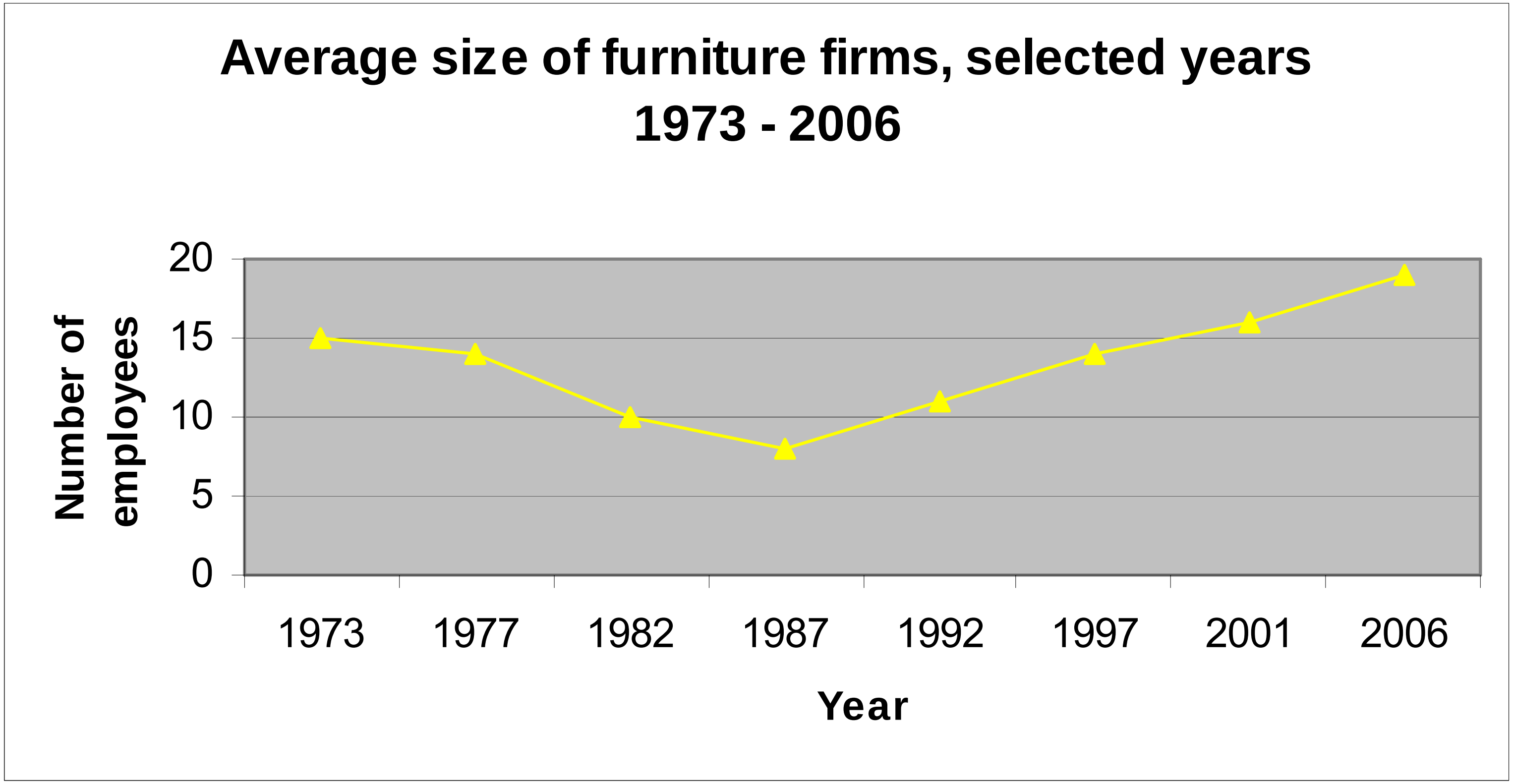
- **Policy obsession with 'high-tech'**
- **Mature (and all that entails)**
- **Yet, resilient; contributes to regional and rural economic activity**
  - 58% of all firms in rural areas: 56% of all employment in rural areas
- **Strategy of cost competitiveness is either impossible or not sufficient**


Furniture Firms by County
Wicklow
Wexford
Westmeath
Waterford
Tipperary
Sligo
Roscommon
Offaly
Monaghan
Meath
Mayo
Louth
Longford
Limerick
Leitrim
Laois
Kilkenny
Kildare
Kerry
Galw ay
Dublin
Donegal
Cork
Clare
Cavan
Carlow
County
0
50
100
150
Num ber of firms
2006
1992
1982
1973

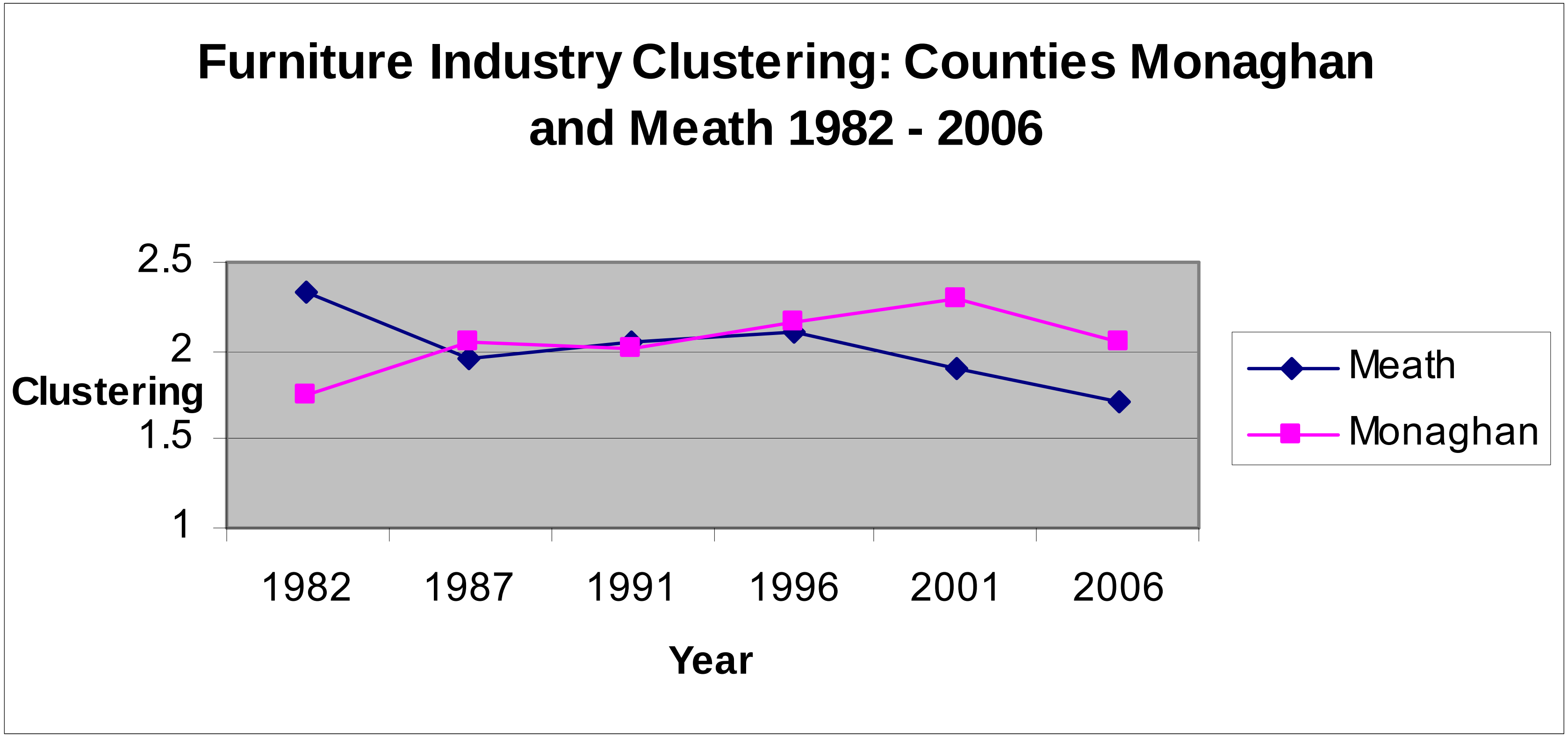
Key trends in the industry



Key trends in the industry (2)



Clustering in the Industry: A Statistical Analysis



Innovation Strategies in the clusters

- **County Meath**
  - Importing products to sell under own label; concentrating on customer service; logistics

- **County Monaghan**
  - Global links for prototyping; product development; components and supplies

- **Differences**
  - Sectors; capital/labour ratios; competitive environment etc

Clustering Trends

Cluster (but decreasing)	No clustering
Meath	Louth, Offaly, Cork, Kildare, Sligo, Kilkenny, Galway, Donegal, Mayo, Dublin, Roscommon, Clare, Limerick
Cluster (but static/decreasing)	**Emerging clusters?**
Monaghan	Wexford, Westmeath, Cavan, Laois, Carlow, Waterford, Tipperary, Wicklow, Kerry, Longford, Leitrim

Conclusions/implications for rural areas

- **If trends in Monaghan and Meath continues value-added may increase at expense of local employment**
- **Key local assets increasingly competences and capabilities of firms**
- **Paradox**
  - Innovation strategy for firm ≠ optimum local development strategy

Conclusions/implications for rural areas (2)

- **What do we know from successful furniture clusters?**
  - Linkages are important (type rather than location important)
  - Organic collaboration
  - Local institutions
  - Flexibility, niches, specialisation
  - Entrepreneurship
  - Change inevitable

- **What do we know from unsuccessful furniture clusters?**
  - React to competition by price/cost competition
  - Stand alone response

Conclusions/implications for rural areas (3)

- **Paradox**
  - Although cluster promotion part of enterprise strategy, policies to directly stimulate networking and clustering have limited success
- **What should the response be?**
  - The focus should be on linkages
  - Need to understand challenges facing sectors, strategies available and innovation processes in firms
  - Promote key success factors consistently
  - Try to build around areas of unique advantage – e.g. The Furniture College in Letterfrack
  - Long term and evolutionary process

Thank You