

## **Building Sustainable Business Clusters towards Global Competitiveness: Case Study of Furniture Making along Owode-Ajegunle Axis of Lagos State**

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### **ABSTRACT**

To countries like Brazil, Pakistan, India, China and many more, business clustering is not new as it has contributed a lot to their economic development. Agglomeration economies as it is otherwise called by some economists have been identified as one of the ways companies bring out innovative products. Because of its potential to affect competition by increasing business productivity, driving innovation and stimulating new businesses, business cluster is a useful tool to create global competitiveness. Currently at Owode-Ajegunle axis along Ikorodu road, Lagos, Nigeria, small uncoordinated groups of furniture makers can be seen producing their wares along both sides of a long stretch of the road. This paper therefore looks at the current position of this natural occurring, disorganized, identified cluster and what can be done for its improvement and sustainability. As a theoretical paper, theories, past works and experiences from other countries of the world will be explored to see how this proposed cluster can be properly established towards creating global competitiveness in this sector. The paper concludes that since industrial clusters have the capacity to rejuvenate local economies, provide competitiveness and create wealth, the formation of these small roadside enterprises into an organized business cluster will significantly improve efficiency, innovation and quality of products in the furniture industry and that the concerned Government institutions, agencies and parastatals must make collaborative effort by creating a synergy among the enterprises of the identified cluster, towards its sustainability for increased global standards.

**Keywords:** Business cluster, Global competitiveness, Furniture

### **Introduction**

Business clustering has always been a part of the history of economic activity, study of economic growth and business development. Porter (1998) whose opinion of industrial or business clusters has become a dominant concept in the research of clusters; defines cluster as “a system of interconnected firms and institutions the whole of which is greater than the sum of the parts”. Although some critics argue that the definition of clusters is too vague and the concept is thus a problematic source of policy advice (Martin & Sunley. 2003). Ketels & Solvell (2006) affirms that cluster-based economic development has become an increasingly popular topic for researchers and economic development professionals. The increasing interest in clusters is only one aspect of a broader reorientation of research and economic policy towards the microeconomic foundations of prosperity and growth. Andersson et al (2004 & 2006) identifies that clustering is something that has been spontaneously created throughout time, but which is currently taking place on a larger more organized scale. Fowcs-Williams (2004) opined that clusters occur naturally; as can be seen amongst the furniture makers along Owode-Ajegunle axis of Lagos state; but in order to accelerate growth, there must be a deliberate intervention towards developing these clusters into more standard and organized ones. Numerous benefits are attributed to business clustering, apart from the continuous existence of the enterprises; it has been known to create healthy competition among the businesses within the cluster. The effect of this has a direct effect on economic growth.

In 1995, the UNIDO Cluster Development Programme was conceptualized with a major objective of strengthening the competitive advantages of business clusters, by adopting the strategy; “learn from successful businesses then implement their strategies in identified other or new ones through technical cooperation projects in various developing countries” (UNIDO, 2004). This indeed is a must do if economic independence and global competitiveness amongst small business is to be achieved. Indeed it has been proven that small-scale enterprises operating in the same or in related industrial sectors in well organized clusters are of immense economic benefit to all stakeholders. Experts in developmental economics and industrialization have suggested that underdeveloped economies should adopt the option of establishing ‘Industrial Clusters’ in view of the fact that they have the potential for rapid industrial and economic development. They are quick to point out that ‘Industrial Clusters’ offer several benefits which include:

- It is a significant form of industrial organization for small-scale manufacturing.
- Clustering promotes different types of inter-firm linkages.
- Clustering is identified with diverse forms of social networks which are associated with personal ties and the notions of trust and reciprocity in competitive behavior.
- Clusters are not a planned intervention yet the state has a role in promoting it.

References are made to the phenomenal successes of Industrial Clusters in different countries and industrial

regions of the world; for instance, in Latin America, the Brazilian Shoe Cluster of Snior Valley is a notable example. Brazil is one of the world's leading producers of leather shoes and the bulk of her export-oriented leather shoes are produced in the Snior valley industrial cluster. Three factors are particularly germane to Snior Valleys' economic success. These are: first, backward linkages that shoe producers have with local suppliers of inputs, machinery and producer services; second, forward linkages between producers and buyers, especially export agents; and third, the strategic intervention of local support institutions in facilitating the cluster's ability to move into higher value added product markets (Neto, 2008; Nadvi, 1995). In the same vein, in Pakistan, an export oriented industrial cluster that produces surgical instruments exists in Siatkot. Siatkot Surgical Instrument Industrial Clusters is a huge success because the producers in the cluster struggled to meet higher standards required by export market. It also made extensive use of blueprints, drawings and technical experts brought from Britain as well as the setting up of a technical institution for training workers with the support of the Federal Government. The Surgical Instruments Manufacturers Association (SIMA) lobbies the Pakistan government for financial and technical support and hired quality assurance consultancy firm to upgrade and train local enterprises. This enabled them to meet ISQ quality standards by employing Good Manufacturing Practices (GMP). In East Asian Clusters, the successful imitation and assimilation of foreign technologies, the formation of geographically dense industrial clusters consisting of a large number of small enterprises producing similar and related products and the advent of multifaceted innovations leading to a great leap forward in the industrial structures were the critical success factors. The successful development of Japanese industries became the model in other East Asian countries such as China, Taiwan and India (Amobi, 2006).

### **Research Methodology**

Data for this paper were derived from secondary sources: previous researches and analyses of scholars; government documents; newspaper/magazines as well as journal articles that are related to the subject as the study involved an extensive literature review which critically analyzed the present status, problems and prospects of furniture making in economic development.

### **Justification**

Capacity utilization in the Furniture making industry in 1988 was 217,700. This increased to 250,714 in 1992 and 326,172 in 2010. According to Ogunwusi (2011) more than 400 companies exists in this sector while over 10,000 outlets operate at cottage and small scale levels in the informal sector. It would not be out of place to say that despite the seeming increase in capacity utilization, the sector has not contributed significantly to foreign exchange earnings as it is dominated by small scale operators of about 3-5workmen, using simple technologies, crude hand tools and equipment. Though their craftsmanship is not in doubt, the conditions under which they operate; production, showcasing and storage of their raw materials and finished products leaves much to be desired resulting in poor quality products; It is a common sight to see small scale furniture makers along both sides of the road on Owode – Ajegunle axis of Ikorodu road. Whether in the sun or under the rain, flooding or in the presence of clouds of dust, these furniture makers are seen busy producing their wares which when completed are left out in the open and are subjected to the same conditions under which they were produced. Considering the conditions under which these furniture are produced and not putting into consideration the amount of craftsmanship put into making these furniture, little wonder the fact that their quality is called to question and hence the preference for imported furniture. How then can they compete in a globalized economy? Recently, the General Secretary of National Union of Civil Engineering Construction, Furniture and Wood Workers (NUCECFWW), Comrade Babatude Liadi lamented that many of the imported furniture could be manufactured in the country, saying: "There are many capable manufacturers of furniture in the country that can favorably compete and beat some of the imported ones" (Ahuma-Young, 2011). According to the president of The Professional Carpenter and Furniture Makers Association of Lagos State (PCFA) Comrade Anthony Aluko, Nigeria imports 100bn Naira worth of furniture products annually. Saying that the importation of finished furniture products has led to the closure of many local furniture manufacturing companies which has rendered over six million carpenters jobless (Ayodele Samuel, 2012). The Director-General, Raw Materials Research and Development Council (RMRDC), Prof. Peter Onwualu, said that the council would develop business clusters in the 774 Local Government Areas. Onwualu said in Abuja that the council had already started the process of technologically developing those clusters. He said "If you look around the country, there are so many naturally existing clusters, like the furniture cluster in Abuja, the leather cluster in Kano, the shoe and bag cluster in Aba. Our idea is to look at these clusters, study them, find out their challenges and see how we can assist them to function better and make them produce competitively. The whole idea is to inject technology into existing clusters and see how we can solve the challenges they have, using technology and in some cases, establish new clusters," He said that the council in 2010, had began the mapping out of the clusters, and that the RMRDC had conducted a baseline study in all the states of the federation to identify such clusters (Vanguard, 2011). The outcome of this is yet to be seen.

### **Role of Business Cluster in Sustainable Industrial Development**

The business environment in Nigeria poses lots of challenges to investors. With problems of policy somersault, poor infrastructure and high lending rates; there is a need for adequate innovation and careful planning to keep these businesses running. Innovative clusters have the capacity to transform and revitalize local economies, provide economic competitiveness, wealth creation and jobs (OECD, 1992; UNCTAD 2007). The industrial cluster concept dates from the last century and has captured the imagination of policy makers, scholars and governments in the last decade. Porter (1990) observed that a localized concentration of horizontally and vertically linked firms can create and sustain competitive advantage. Binding clusters together are buyer - supply relationships, common technologies, common buyers, distribution channels and common labour pools (Enright, 2000). In most cases, non-business associations such as industry associations, technical colleges with specialized industry programmes, universities and government industrial extension programmes, commonly referred to as critical related supporting institutions are often part of the cluster. In many countries, the formation of industrial clusters has led to the success of several industries in the global market. According to Porter (1990), the success of any firm can be attributed to the nature of strategy, structure and rivalry in the country including attitudes towards competition.

When small manufacturing enterprises cluster together, they have the potential to gain from local and external economies through collective efforts (Bergman et.al, 2011; Nadvi, 1995). Thus, enterprises have the capacity to engage in flexible specialization where they perform certain operations or produce certain types for other enterprises. These joint actions enable small enterprises to derive competitive advantage from external economies. Collective efficiency is facilitated by clustering on a number of factors including product specialization, rapid production of specialized products, emergence of suppliers, emergence of service producers, marketing agents, pooling of skilled labor and formation of consortia or association for specific services and lobbying (Bergman et.al, 2011).

### **Strategies for Establishment of Furniture making Clusters in Nigeria**

Although, there is limited understanding of how innovative clusters emerge (Freeman and Soete, 1997), the need to access basic requirements leads to clustering. The evolution of industrial clusters is brought about by a variety of circumstances ranging from existence of industries to technology transfer from other clusters, availability of a pool of workers, foreign technology input, import substitution and creation of new infrastructure. The furniture cluster in Morodomi in Saga prefecture in Japan was formed as a result of a toll bridge built over Chikugo River connecting Ohakwa and Morodomi at the point where furniture producers at Ohakwa were searching for new locations to expand its manufacturing base (Yamawaki, 2001). This same cluster could be established in Nigeria by investors or associations within the industry, while the initiative must be supported and promoted by government, through the provision of an enabling environment, adequate infrastructure such as energy, road, water and good workshop and warehousing facilities within the cluster, access to funding and industry friendly policies. Once the incentives and the environment are aligned, the result is a fully functioning industrial cluster that is able to sustain economic growth as well as withstand adverse shocks (Ako and Kuje, 2010). Research and training institutions should help sustain perpetual research and innovation necessary to continuously generate new products and open new markets (Freeman and Soete, 1997). Already in Nigeria, Oyebisi et al (1996) reported that industry-university interaction do exist, but at low levels. This type of interaction is important to enable clusters internalize knowledge developed elsewhere (Rosa and Mohnen 2008).

#### **Benefits of Business Clustering**

A clear picture, as painted above signifies that firms, government and the people are bound to gain from business cluster development. Some of these gains include:

#### ***Access to new knowledge and new markets while increasing competitiveness***

By cooperating with other companies and knowledge institutions; enterprise and the work force gain access to new knowledge, new perspectives and a new network. This increases the competitiveness and innovativeness for enterprise (TMG), while opening up markets outside the cluster. Krugman (1991) asserts that business cluster provides other benefits that allow for a pooled market for workers with specialized skills in terms of spillover effect such as information flows, technological and knowledge spillovers.

#### ***Access to synergies and economies of scale***

Business cluster considers every perspective and is open to developing synergies and economies of scale, enterprises can achieve these objectives by taking advantage of each other's business networks thereby increasing their market share in the industry.

#### ***Access to qualified labor***

Since one of the key principles of business clustering is cooperation, access to proper training and development of qualified labor through various qualification programmes is certain.

#### ***Access to valuable advisory services***

With different forms of enterprise operating within the cluster, access to competent advisory services based on concrete business know-how is assured.

### ***Access to political influence locally***

Government decisions and policies can be greatly influenced in favour of the enterprises within the cluster as they already form a pressure group within the cluster. What an individual enterprise cannot on its own achieved can be done easily by the group on enterprise in the cluster.

### ***Access to positive feedback***

Feedback plays a central role in business clusters (Baptista and Swann, 1999; Swann *et al.*, 1998; Swann and Prevezer, 1996). Since enterprises are closer and have become partners in progress, receiving feedbacks from one another are a major growth and development factor. Porter (1998) also acknowledged that feedbacks amplify the benefits of clustering. Other extraneous effects from this feedbacks include a higher rate of productivity (Breschi and Malerbi, 2006).

### ***Reduction in cost of production and increased productivity***

Cost reduction is no doubt one of the gains of clustering. Krugman (1991) asserts in agreement with Porter (1990) that enterprises in a cluster are effective in generating economic growth and general production cost minimization e.g. reducing transportation costs, transactions costs etc. The long run effect will enable innovation, increased productivity, and businesses expansion.

### **The Role of Government**

The theory of industry clusters advocates new, constructive, and actionable roles for government in business in the pursuit of competitiveness and prosperity. Competitive advantage grows fundamentally out of improvement, innovation and change which can be sustained through relentless improvements in product and service delivery. Businesses in a cluster will gain advantage over international rivals if they could find new and better means to compete with better linkages, increased human capital, knowledge spillovers and innovation, which entails managing the entire value system (Porter, 1990). Porter (2000) emphasizes that while government should not get involved in the competitive process, it must however improve the environment for productivity; such as improving the quality and efficiency of business inputs and infrastructure, develop policies and regulatory context that stimulate innovation while creating an enabling environment that supports rising productivity. Other responsibilities which rest squarely on the shoulder of the Government include; reductions of trade barriers, price fixing, double taxation, while providing an atmosphere for vigorous competition (Porter, 1990). This would go a long way towards increasing the productivity of companies based in the cluster, driving the direction and pace of innovation, which underpins future productivity growth which stimulates the formation of new businesses, that expands and strengthens the cluster, forming a virtuous circle or positive feedback.

### **Challenges of Industrial Clustering in Nigeria:**

- Generally, in contrast to global trend of clusters development, African clusters have not been able to go beyond producing for local markets. This could be as a result of neglect or ineffective policy design on one hand, or absence of institutional backing on the other.
- Poor infrastructure such as electricity, roads and water increase the cost of doing business because potential cluster operators are constrained to provide these services by themselves.
- It is difficult for small scale enterprises to grow in an environment where civil and commercial laws are very weak with attendant continuous policy somersaults.
- Banks and formal credit institutions have problems in giving loans to small scale enterprises in clusters. Securities obtained for credit guarantee by small enterprises are sometimes not adequate or even non-existent. (Stephen and Lenihan, 2007).

### **Strategy towards Developing a Furniture Making Cluster along Owode-Ajegunle Axis of Lagos State**

In order to develop a sustainable cluster for the numerous furniture making enterprises, working independently and uncoordinated under very unconventional conditions along the targeted area, there must be a deliberate intervention which could be appropriately phased as follows;

#### **Phase 1: Information and Education**

It is important that the existing businesses be educated on the operations and benefits of the cluster initiative, and how they could effectively become players in the larger global market.

#### **Phase 2: Forming comprehensive administrative team**

Comprehensive administrative teams being all identified stake holders; which will include representatives from the banking sector, higher institutions, relevant Government agency and related business enterprises such as: transporters, wood sellers, fabric merchants and other related merchants.

#### **Phase 3: Implementing and Designing the expected linkages and synergies**

The identified stakeholders including agencies, establishments, institutions and enterprises required to form the linkages and synergies must be duly intimated on their roles and responsibilities as it relates to the enterprises within the cluster.

#### **Phase 4: Sustaining the initiative**

Sustaining the cluster is important. Constant update on recent market demand, new technology, raw materials, resources among others; to ensure not only the existence, but constant improvement of output for competitiveness of the cluster must be ensured by the management team.

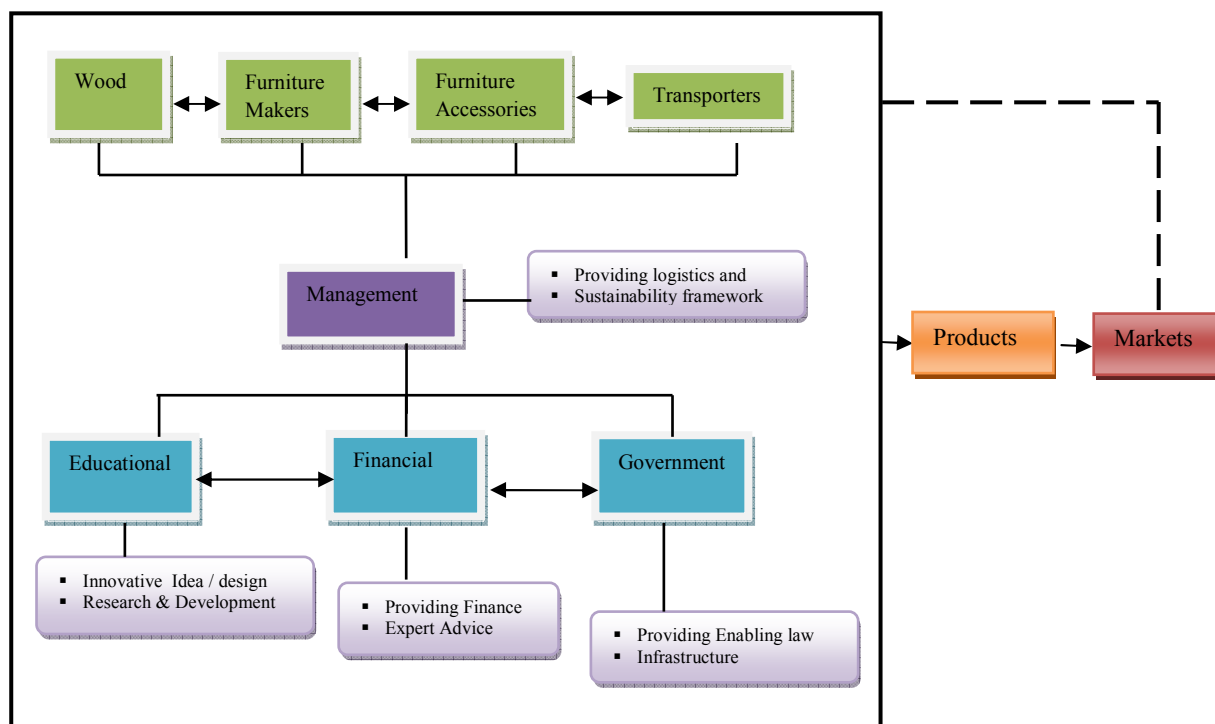


Fig 1.0 Linkages among the identified stakeholders in the cluster development initiative

### Conclusion

As industrial clusters have the capacity to rejuvenate local economies, provide competitiveness and create wealth, the formation of the enterprises into industrial clusters will significantly improve efficiency, innovation and quality of products in the furniture industry. Clusters also have the advantages of promoting access to loan able funds, support by government and funding agencies in addition to promoting joint actions. Thus, clustering will enhance productivity in the furniture sector while promoting access to global markets. The furniture market is 'very large and expandable' but regrettably the potentials of the sub-sector are yet to be fully tapped due to lack of finance and government support.

### Recommendation

- The necessary infrastructure required for the development of the cluster must be provided and functional.
- The activities of the cluster should be constantly reviewed to ensure sustainability
- The identified stakeholders for the initiative should ensure the synergy works
- The government should provide small and medium entrepreneurs, SME's with single digit interest loans to enable them grow the furniture market as local furniture makers cannot survive without access to finance. This would enable them produce world class furniture using best machinery available; furniture whose quality is higher and better than most of the imported ones that would stand out anywhere in the world in terms of quality, durability and affordability."
- Appropriate incentives, such as tax relief and establishment of special intervention funds, among others, must be provided for the cluster. This will protect the indigenous furniture manufacturing firms within the cluster.
- Necessary policies and regulatory environment must be put in place to enable indigenous furniture makers compete favorably in the global market.

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