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## **FORMING IRELAND'S INDUSTRIAL DEVELOPMENT AUTHORITY**

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## **ABSTRACT**

Tracing the creation and (re)production of Ireland's Industrial Development Authority (IDA) through the lens of path dependence theory, the story charts the IDA's creation within protectionism. In parallel with the gradual shift away from protection towards free trade, the story follows the IDA's emergence as the state's pre-eminent industrial development agency, its re-creation as a state-sponsored organisation and the growing political, institutional and monetary resources afforded it in return for delivery on objectives, largely in the shape of new job creation. However, the increasing reliance on foreign investment to meet targets, at the expense of indigenous industry, eventually surfaces as a challenge in the early 1980s and culminates in the IDA being split into separate agencies in 1994. Today, supporting export-oriented, foreign multinational organisations, which employ some 136,000 people and account for some for €110bn or 70 per cent of total exports, and continuing to promote and attract inward investment (IDA, 2010), IDA Ireland remains an important organisation in the Irish enterprise development institutional landscape.

## INTRODUCTION

Taking path dependence as a lens (see Donnelly, 2009), this chapter traces the creation and (re)production of Ireland's Industrial Development Authority (IDA). The story that unfolds takes as its starting point Ireland's turn to protectionism following the general election of 1932, charting the increasing investment by successive Governments in the machinery of protection and the creation of the IDA in 1949 as an autonomous agency within an institutional matrix focused on protection. The story then moves on to tell of the gradual shift away from protection towards free trade, a repositioning that witnessed the emergence of the IDA as the pre-eminent agency of state dealing with industrial development and its re-creation as a state-sponsored organisation. Throughout the course of time, the story traces the growing commitment to the IDA in terms of political, institutional and monetary resources, with the IDA in turn reinforcing that commitment through delivery on its objectives, largely in the shape of new job creation. Essentially, the story is illustrative of increasing returns reinforcing the chosen path of industrial development, itself reinforcing the IDA as the principal instrument through which such development occurs. However, as the story continues to unfold, the increasing reliance on foreign investment to meet targets, at the expense of indigenous industry, eventually surfaces as a challenge to the IDA in the early 1980s and culminates in the IDA being split into separate agencies in 1994, namely Forfás, IDA Ireland and Forbairt (now Enterprise Ireland). To read a more detailed account, see Donnelly (2007: 109-271).

Forfás is the policy advisory and co-ordination board for enterprise, trade and science and technology in Ireland, and in it are vested the state's legal powers for industrial promotion and the development of trade and technology. Through Forfás, powers are assigned to Enterprise Ireland for the development and promotion of the indigenous industry sector and to IDA Ireland

for the promotion of inward investment. Prior to moving on to the IDA story proper, a brief insight into path dependence theory would be of benefit.

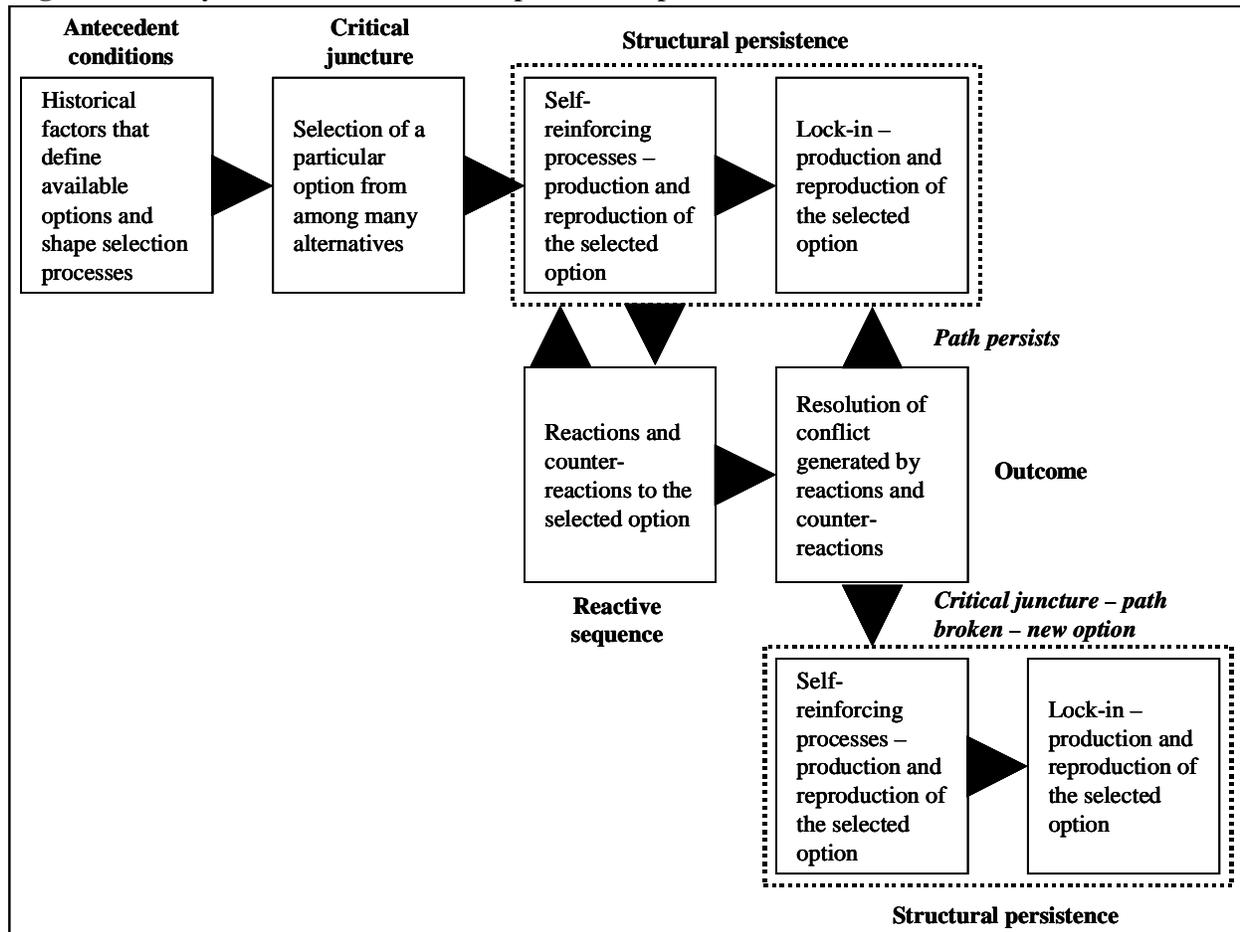
### **PATH DEPENDENCE AS LENS**

Recognising calls for more processual and historically informed theorising, path dependence theory (Arthur, 1994; David, 1985, 1987, 1994; North, 1990) offers a way of articulating the organisational as an ongoing dynamic over more dominant ways of thinking and knowing that are more static. Those who are not familiar with the path dependence approach think that it is no more than recognition that ‘history matters’, such that path dependence is equated with ‘past dependence’ (Antonelli, 1997). However, path dependence characterises a special type of organisational process, at the heart of which is an entrapping process that, over time and (partly) dependent on prior choices and events, radically limits the scope of action (Sydow, Schreyögg and Koch, 2009). Viewed as an idea through which ‘history’ is commonly made visible, the path dependence approach holds that a historical path of choices has the character of an irreversible branching process with a self-reinforcing dynamic in which positive feedback increases, while at the same time the costs of reversing previous decisions increase, and the scope for reversing them narrows sequentially, as the development proceeds. Thus, preceding steps in a particular direction induce further movement in the same direction ‘because the *relative* benefits of the current activity compared with other possible options increase over time’ (Pierson, 2000: 252, emphasis in original), thereby eventually leading into a non-reversible state of total inflexibility or lock-in (David, 1985).

As Mahoney (2000: 511) notes, path-dependent analyses have at least three defining characteristics: (1) they entail the study of causal processes that are very sensitive to events that

occur early on in an overall historical sequence; (2) given the contingent character of these early historical events, they cannot be explained by reason of preceding events or initial conditions; and (3) when contingent historical events occur, path-dependent sequences are reflected in essentially deterministic causal patterns. Adapting Mahoney (2001:112), these characteristics are elaborated into an analytic structure based on his view that path dependence refers ‘to a specific type of explanation that unfolds through a series of sequential stages’, as shown in Figure 1 below.

**Figure 1:** Analytic Structure of Path-dependent Explanation



(Source: Adapted from Mahoney, 2001: 113)

Antecedent conditions refer to historical factors that define available options and shape selection processes. These conditions characterise a wide range of action, where decisions made cannot be predicted by past events or initial conditions. However, to a degree, antecedent conditions are also influenced by the past (Child, 1997), in that they are influenced by historically framed and imprinted contingency and not by wholly unrestricted choice (Sydow, Schreyögg and Koch, 2009). Reflecting antecedent conditions, then, at least two options are open for selection at the critical juncture, which represents the point when one option is chosen and the dynamics of self-reinforcing processes are set into motion.

The choice is consequential because it leads to the creation of an evolving and narrowing organisational path that, building into structural persistence, becomes increasingly difficult to reverse over time. It is here that positive feedback or increasing returns become active through self-reinforcing dynamics of set-up or fixed costs (the higher the costs, the greater the incentive for individuals and organisations to stay on path), learning effects (experience of an existing path leads to higher returns from its continuing use), coordination effects (benefits of a given path increase as others adopt the same option) and adaptive expectations (self-fulfilling character of 'picking the right horse') (Arthur, 1994: 112). Thus it is that, once a specific selection has been made, it becomes increasingly difficult with the passing of time to return to the initial critical juncture when at least two options were still available. As noted by Arthur (1989, 1994), increasing returns to adoption are realised not at a single point of time but rather dynamically, such that each step along a particular organisational path produces consequences that increase the relative attractiveness of that path for the next round. As effects begin to accumulate, they generate a powerful cycle of self-reinforcing activity, contributing to lock-in, such that flexibility becomes severely constrained and the organisational path is fixed and takes on a quasi-

deterministic character. Sydow, Schreyögg and Koch (2009) suggest that organisational paths, due to their social character, require a modified conception of lock-in. Thus, instead of a fully determined lock-in, Sydow, Schreyögg and Koch (2009: 695) argue for conceiving of lock-in 'as a matter of degree, accounting for variance in the actual practicing of the organizational path'.

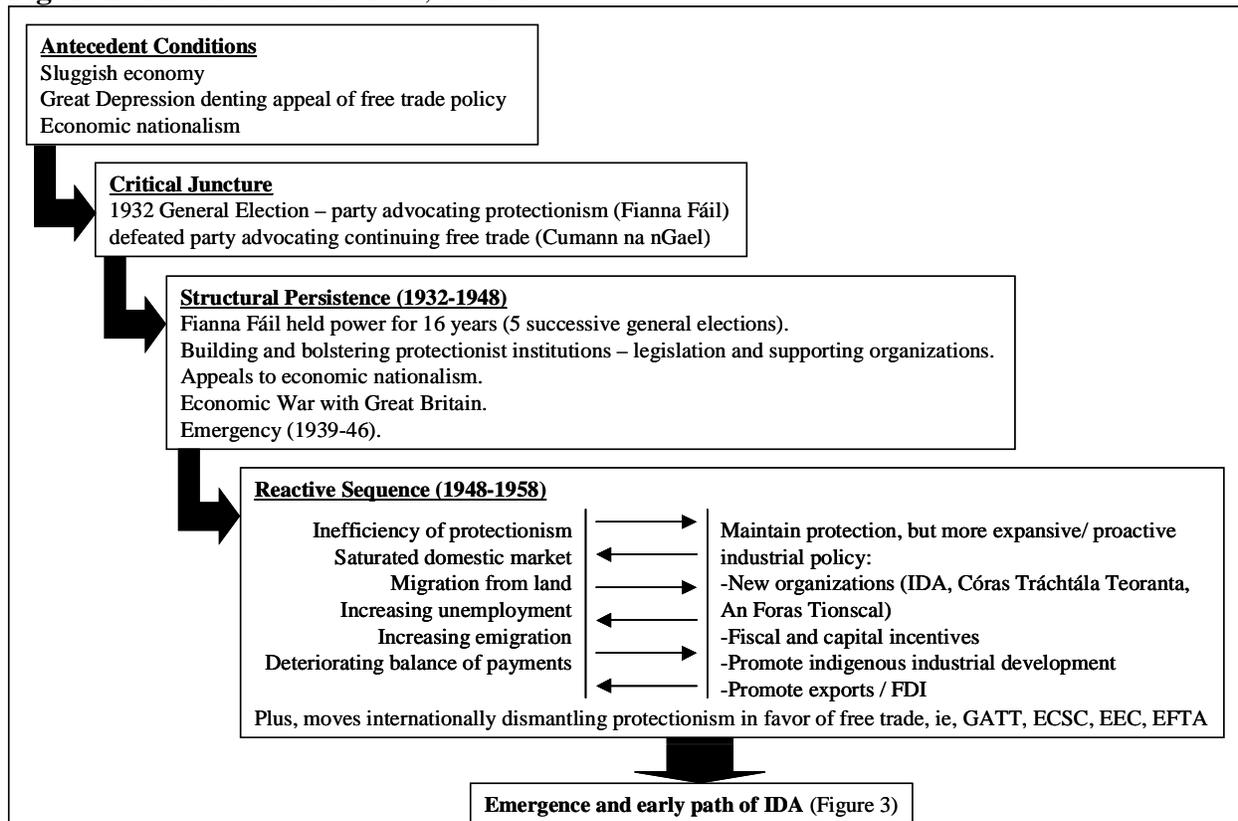
The continued existence of an organisational path over time has the potential to activate a sequence of causally linked events that, when activated, materialise separately from the factors that originally produced the path. In such reactive sequences (Mahoney, 2001), which comprise chains of events that are both temporally ordered and causally connected, the final event in the sequence is the outcome of interest. A reactive sequence is often set in motion by an initial challenge to the existing organisational path, with counter-reactions to this opposition then driving ensuing events in the sequence. Reactive sequences are typically marked by properties of reaction and counter-response, as patterns put in place during critical juncture periods are resisted or supported. Although such resistance may not be path breaking, it can trigger an outcome or critical juncture that results in the development of a new organisational path. With the above framework in mind, we now turn to the IDA's story.

### **EMERGING WITHIN PROTECTIONISM: CREATING THE IDA**

With a sluggish economy, the Great Depression in train and economic nationalism on the rise internationally, two possible paths to economic development were on the table at the time of the 1932 Irish general election, namely, free trade or protectionism. With the protectionist platform winning the day, the new government embarked on a path that continued in force for almost two and a half decades, underpinned by Fianna Fáil, the party advocating protectionism, winning five

successive general elections and remaining in power for almost two decades (see Figure 2 below).

**Figure 2: The Protectionist Path, 1932-1958**



(Source: Donnelly, 2007: 148)

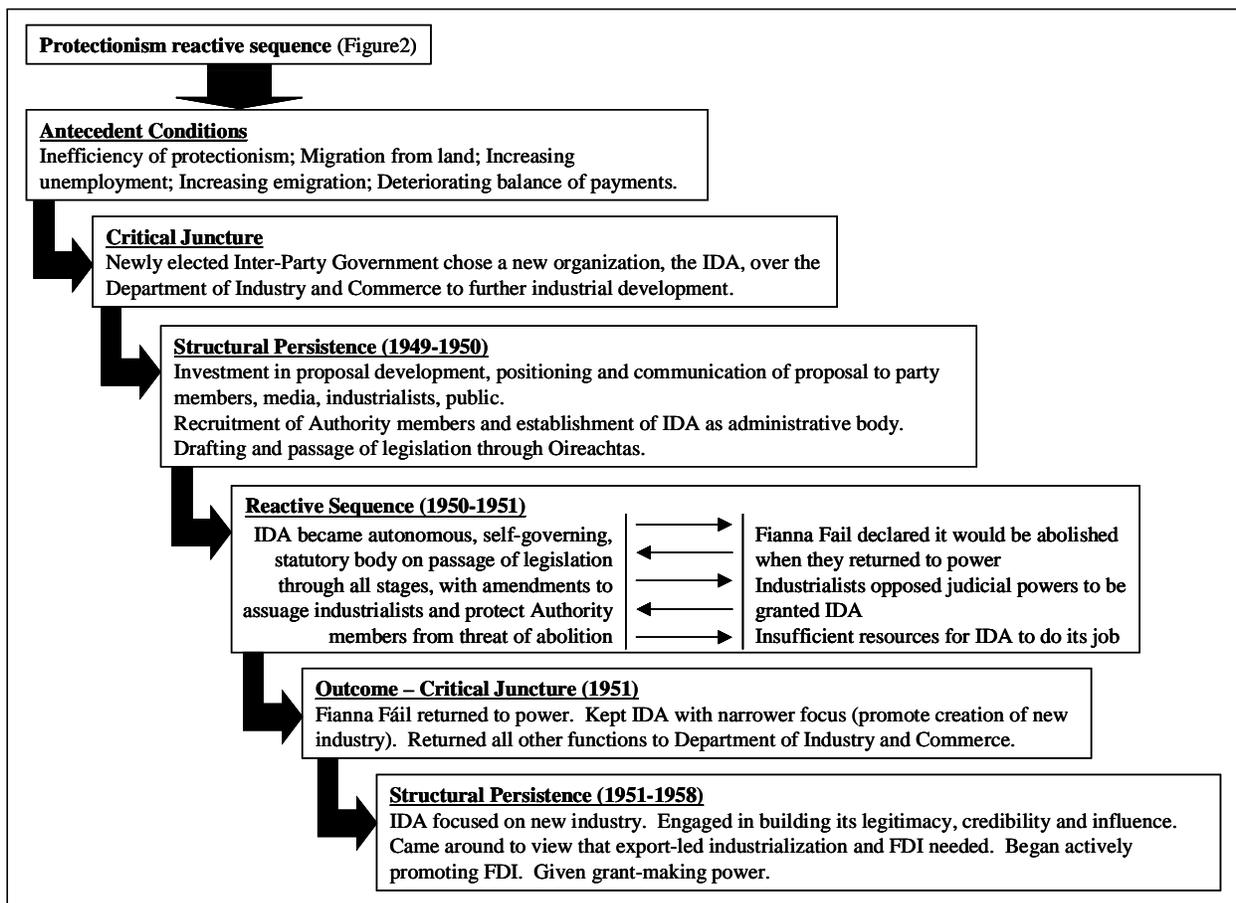
As it was, Fianna Fáil invested significant political capital in protectionism as the means to achieving economic independence, appealing to economic nationalism and engaging in an economic war with the Great Britain (Kennedy, Giblin and McHugh, 1988). Additionally, the government set about building the protectionist machine through passing legislation and establishing appropriate organisations. Through layering (Thelen, 2003), legislation (e.g., Control of Manufactures Act, 1932; Control of Prices Act, 1932; Control of Imports Act, 1934) and supporting organisations (e.g., Industrial Credit Corporation, 1933; Prices Commission, 1937) were added to partially re-negotiate elements of the protectionist machinery, while at the

same time strengthening it in the process. These various legislative moves also exhibit learning effects, as can be seen in the adaptations made to various pieces of legislation constituting the machine (e.g., Control of Manufactures Act, 1934; Control of Prices Act, 1937; Control of Imports Act, 1937). The investment in these legislative and organisational assets, which were specific to protectionism, added to the resilience of the institution and deepened the equilibrium established by the turn to self-sufficiency. Further, coordination effects and adaptive expectations were evident in the support for this infrastructure, not just by government, but also by industrialists.

By the late 1940s, protectionism was coming under pressure because of its inefficiency, the saturated domestic market, migration from the land, increasing unemployment and emigration, and a deteriorating balance of payments (PDDE, Vol.119, Cols.1584-1585, 9-March-1950). While continuing with the policy of protectionism, a new Fine Gael-led inter-party government (1948-51) sought to combat its ills through engaging a more proactive industrial policy centred in a new organisation, the IDA (*Irish Independent*, 1949: 5; PDDE, Vol.119, Col.1586-1595, 9-March-1950). In establishing the IDA in 1949, the government chose between establishing an autonomous body and the existing civil service arrangements, opting for the former and investing in a path to bring about its creation (see Figure 3 below). That path involved high set-up costs, not to mention adaptive expectations, entailing negotiating the proposal within government and the civil service and then selling the idea to the media, to industrialists, to members of the coalition parties and to party faithful. It entailed recruiting the IDA executive (i.e., Authority) members and establishing the IDA as an administrative body in advance of any legislation passing through the Oireachtas, itself a large investment should the initiative have failed in its passage through the legislative process at any of the formal veto

points. It entailed drafting legislation and steering passage of same through the legislative process, with succeeding stages dependent on passage of preceding stages first. Indeed, in proposing legislation to the Oireachtas, government had to be sure that it would have the support of its own members to ensure safe passage, whatever about the position taken by the opposition.

**Figure 3: The IDA's Early Path**



(Source: Donnelly, 2007: 151)

Thus, even before coming to the Oireachtas, there were already significant start-up costs and expectations as to what the IDA would achieve. Such was the investment that, on returning to power in 1951 once again, rather than abolish the IDA, as it had threatened to do (PDDE, Vol.119, Cols.1618-1619, 9-March-1950), Fianna Fáil refocused the IDA instead on industrial

development, taking away the administrative role that was best seen to rest with civil servants and freeing it to focus on promoting industrial development (PDDE, Vol.126, Cols.1514-1515, 12-July-1951). Following this critical juncture, the IDA had become established as part of the nascent industrial development institutional landscape.

The IDA represented layering, in the sense that the protectionist institutional matrix was left in place, and this layer, while an attempt to improve matters, represented learning effects and further investment, by way of coordination effects and adaptive expectations, in making protectionism work. Thus, from 1932, there was built an interdependent institutional matrix in support of protectionism, resulting in quite substantial complementarities, with institutional arrangements mutually reinforcing each other. In essence, institutional arrangements constituted a stable equilibrium, its resilience being such that institutional continuity conditioned change and exhibited strong tendencies towards only incremental adjustment (Pierson, 2004).

A critical feature of path dependent processes is the relative 'openness' or 'permissiveness' of early stages in a sequence compared with the relatively 'closed' or 'coercive' nature of later stages (Abbott, 1997; Mahoney, 2001). This can be seen in the sequence that emerged in reaction to protectionism, where new conditions were overwhelming the specific mechanisms that previously reproduced the protectionist path. Tentative moves were being made towards an outward-looking orientation, albeit not in any concerted or coordinated fashion at the outset and from within the definite confines of protectionism. Initially, the IDA favoured protectionism to encourage indigenous industrial development. However, through experience on the ground, the IDA's view gradually changed to seeing export-led industrialisation as the only way to develop the Irish economy and foreign investment as a source for such industrialisation, resulting in its recommendation that the restrictions on foreign capital be eased (Walsh, 1983,

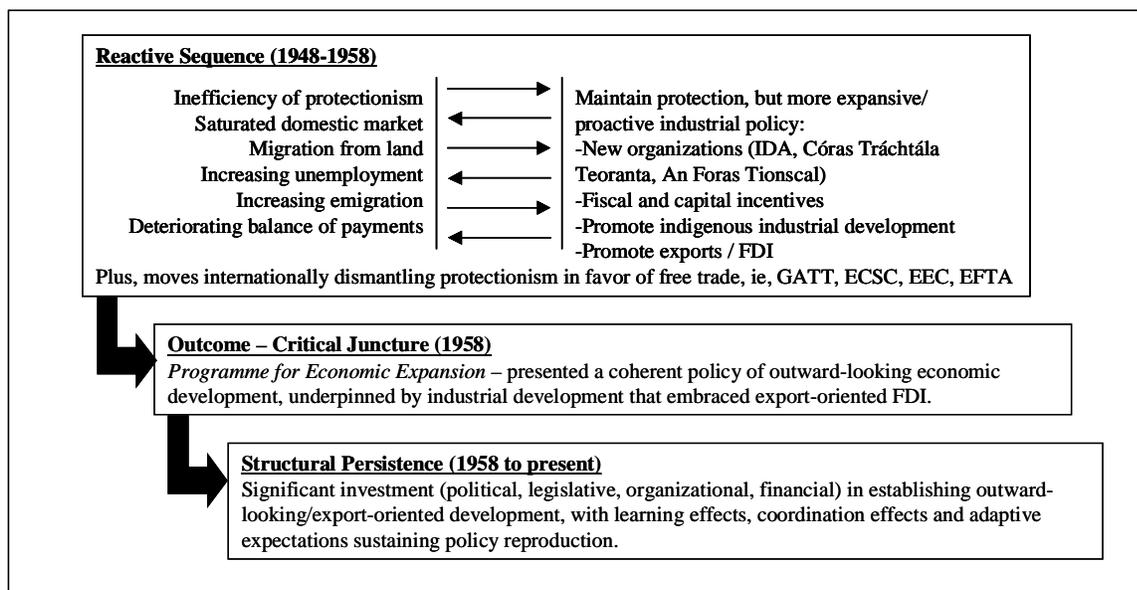
cited in Girvin, 1989: 180-181). The government, in extending the remit of the IDA, began to actively encourage foreign investment to fill gaps where indigenous industry had failed to seize opportunities. Subsequently, further modifications were made to facilitate foreign investment, with industrial policy moving from a focus on import-substitution and indigenous industry to encouraging exports and foreign investment (PDDE, Vol.163, Col.453, 2-July-1957). Thus, reflective of learning effects, coordination effects and adaptive expectations, we see a growing shift in policy, itself requiring the investment of political capital in articulating, supporting and institutionalising that shift.

Following North (1990: 98-99), therefore, the continuity of protectionism was not inevitable given that the mechanisms of reproduction were subsequently eroded over the course of the reactive sequence that paved the way for the emergence of a new equilibrium. As we see, throughout the late 1940s and the 1950s, the decreasing returns to the protectionist path, when combined with the effects of population movement, began to erode the mechanisms of reproduction that generated its continuity. While government sought to bolster protectionism with mechanisms that included new state organisations (e.g., the IDA, 1949; C oras Tr acht ala Teoranta, 1951; An Foras Tionscal, 1952) and incentives (e.g., capital and training grants, tax relief on exports) to promote industrial development, this was insufficient to address the decreasing returns. Of interest is that institutional responses in support of protectionism, to include the nascent IDA, proved plastic enough to fit with an outward-looking reactive sequence and institutional matrix developing in parallel, a sequence driven by the need to deal with new conditions, which included increasing moves towards free trade and mobile investment capital internationally.

## CHANGING POLICY: FROM PROTECTIONISM TO FREE TRADE

As has already been seen, the rules of the game were changing through the 1950s and successive governments were becoming more frustrated with protectionism in the face of increasing inefficiencies. Despite efforts at actively encouraging industrial development and the development of exports, the inefficiencies of the protectionist path were proving immune to such incremental change (Department of Finance, 1958a: 2). It was only with the government's *Programme for Economic Expansion* (Department of Finance, 1958b) that all of these efforts were pulled together into a coherent policy of outward-looking economic development, underpinned by industrial development that embraced export-oriented, foreign direct investment (FDI). In marking a critical juncture, this programme represented a significant, path-shifting investment on the part of government in a highly visible policy that effectively sounded the death knell for protectionism (see Figure 4 below).

**Figure 4:** Reorienting the Path from Protectionism to Outward-looking Economic Development



(Source: Donnelly, 2007: 207)

Essentially, the move towards a more outward-looking economic development policy entailed considerable start-up costs, particularly political and particularly for Fianna Fáil, which had preached protectionism for two decades. Representing a fundamental shift in policy, government had to both divest itself of protectionism and embrace a more open policy that included accepting foreign investment as a vehicle through which to achieve both industrial and economic development. Further, it meant government investing in promoting this highly visible policy change, investing in the creation of new meaning around the new policy and investing in its implementation. It meant considerable start-up costs for the civil service in reorienting itself away from managing protectionism to putting in place new institutions to manage a more open economy. It also meant investing in engagement with ongoing moves internationally towards freer trade (i.e., General Agreement on Tariffs and Trade (GATT), European Coal and Steel Community (ECSC), European Economic Community (EEC), European Free Trade Area (EFTA)) and the changes such engagement would require, such as the development of complementary policies, the negotiation and signing of treaties, and the implementation of these treaties. Further, it meant investment in the development, promotion and implementation of successor economic development plans that built on, and so reinforced, the path established by the critical juncture (i.e., *Second Programme for Economic Expansion* (Department of Finance, 1963, 1964); *Third Programme for Economic and Social Development* (Department of Finance, 1969)). Equally, these investments were not just monetary, but they were also in reorienting the collective mindset, disengaging it from the policy of the past and engaging it with the policy of the future.

From a policy learning perspective (Pierson, 1993), Ireland's story of economic development is illustrative of policy constituting 'important rules of the game, influencing the

allocation of economic and political resources, modifying the costs and benefits associated with alternative ... strategies, and consequently altering ensuing' development (Pierson, 1993: 596). While government shaped the outward-looking economic development policy, following Pierson (1993), this policy can be seen to have subsequently produced politics, with the policy serving to shape politics. This being so, economic development policy can be seen to have produced resources and incentives (e.g., the IDA, the need to create jobs) for government, with positive feedback (e.g., jobs created) influencing continued investment in the policy. Such policy feedback facilitated the expansion in scope and scale of economic development, with economic development policy shaping industrial development policy, which, in turn, shaped later developments and served to reinforce the path taken.

The government's main objective in terms of industrial policy was to create the conditions necessary for private enterprise to drive industrial development. Thus, in terms of adaptive expectations, we see it explicitly expressed as part of government policy that protection is increasingly untenable in a world that is sensed to be moving towards free trade and in opposition to an industrial development policy that both welcomes foreign participation and is export-oriented. This new approach to economic development established the path to be followed and, it is in line with this critical juncture, that moves along the path of export-led industrialisation and economic cooperation with Europe were subsequently made. It was within this context that the IDA was reproduced.

## **FROM MINOR STATUTORY BODY TO MAJOR STATE-SPONSORED AGENCY:**

### **BUILDING THE IDA**

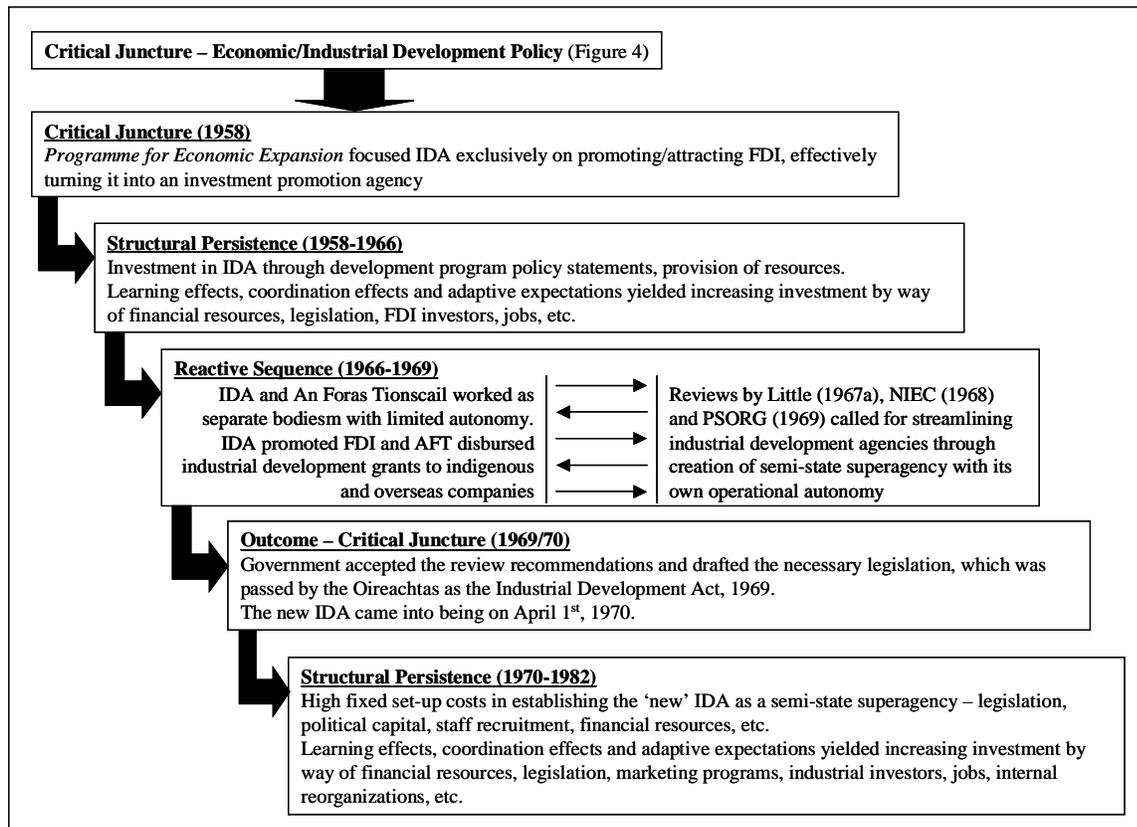
The policy change favouring free trade also marked a critical juncture for the IDA (see Figure 5 below) in focusing its efforts and positioning it as the focal organisation in attracting FDI (Department of Finance, 1958b: 40), effectively turning it into an investment promotion agency, with coordination effects and adaptive expectations seeing increases in the organisation's scope and resources through the success of its efforts. In the years immediately following this policy change, and illustrative of learning effects, coordination effects and adaptive expectations, the IDA invested in marketing campaigns and opened offices in the US and Europe, which garnered foreign investment for the country, such investment garnering further funding for the IDA to facilitate its work, each move reinforcing further moves along the burgeoning path of FDI as a means of achieving industrial development.

In terms of complementary institutional developments, besides the financial incentives machinery (i.e. various grant schemes), other legislative moves complemented and facilitated the IDA's work, particularly in the area of taxation (i.e., export profits tax relief). Through the 1950s and 1960s, the IDA gradually built the country's reputation as a base for manufacturing industry and its reputation and identity as the country's industrial development organisation. This period acted as the 'pilot stage' in attracting new industries to the country, albeit the pilot provided much of the manufacturing sector's diversification and growth (O'Neill, 1972: 44).

The IDA's success met with operational limitations, however (Little, 1967a). As matters stood, the IDA operated within the tight constraints of the civil service bureaucracy, with no control over the assignment or withdrawal of its staff, nor over its structure. On the one hand, the IDA was being asked to play an increasingly demanding, key role in the country's economic

development, while being handicapped on the other through not having the operational autonomy to deliver on that role. To bring about change, in the late 1960s the IDA engaged US consultants Arthur D. Little (1967a, b) to assist it in a major reappraisal of Ireland's industrial development apparatus. The review concluded that achieving full employment rested on encouraging foreign firms to establish operations in the country, requiring more than just charging the IDA with the undertaking; the IDA would also need far greater resources than were given it, in addition to the capacity and flexibility to control its own operations.

**Figure 5: IDA Path from Minor Statutory Body to Major State-sponsored Super-agency**



(Source: Donnelly, 2007: 207)

All in all, Little (1967a) represented a blueprint that was subsequently followed in re-creating the IDA as an autonomous state-sponsored organisation, charged with the key task of

coordinating and delivering on Ireland's industrial development policy. Indeed, Padraic White<sup>1</sup> noted that it was the IDA itself that both engineered the Little review and directed its content:

Ted O'Neill and company commissioned A.D. Little to write the script. They basically wrote the script. Because they came to the limits of what you could do in the Civil Service. Ted O'Neill said, 'We couldn't hire a typist. We'd 6 international offices. Imagine all the expenditures involved, promotions involved, tied with the civil service. We basically commissioned A.D. Little. We basically wrote the script for them. We basically wrote the legislation. The Government of the day said, 'Yes, we want a super-agency that will take this thing to a new level.'" That was the 1960s. It was an amazing act. [...] I think the influence of people like Ted O'Neill and Joe Walsh as trusted public servants within the Department of Industry and Commerce. I think they had a huge influence. As I say, they were trusted and that thread of how they ended up with A.D. Little and they said basically 'we need a new agency.'

Reviews by the National Industrial Economic Council (NIEC, 1968) and the Public Services Organisation Review Group (PSORG, 1969) echoed and reinforced the reorganisation recommended in Little (1967a). On foot of these reviews, and by way of critical juncture, The Industrial Development Act, 1969, streamlined agencies dealing with industrial development and concentrated the expertise within an expanded IDA having full control over its own internal operations. It gave the IDA the status of a state-sponsored organisation having national responsibility for the furtherance of industrial development, in addition to consolidating decision-making power concerning industrial development within the organisation. Government maintained overall control through its power to appoint the IDA's members, its broad responsibility for setting industrial policy and its broad control over the organisation's budget. Additionally, government pro-actively legitimised the IDA's role and position, making it clear through the reorganisation legislation that both industrial development and the IDA's central role in it represented a vital, long-term programme for Ireland to which it was committed.

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<sup>1</sup> Personal interview with Padraic White on May 9<sup>th</sup>, 2006. Mr. White joined the IDA in 1969 and served as head of the Home Information Division, then head of the Planning Division, and then Executive Director with responsibility for planning, regions, public relations, promotions and development cooperation. He succeeded Michael Killeen as Managing Director in 1981, a position in which he served until 1990.

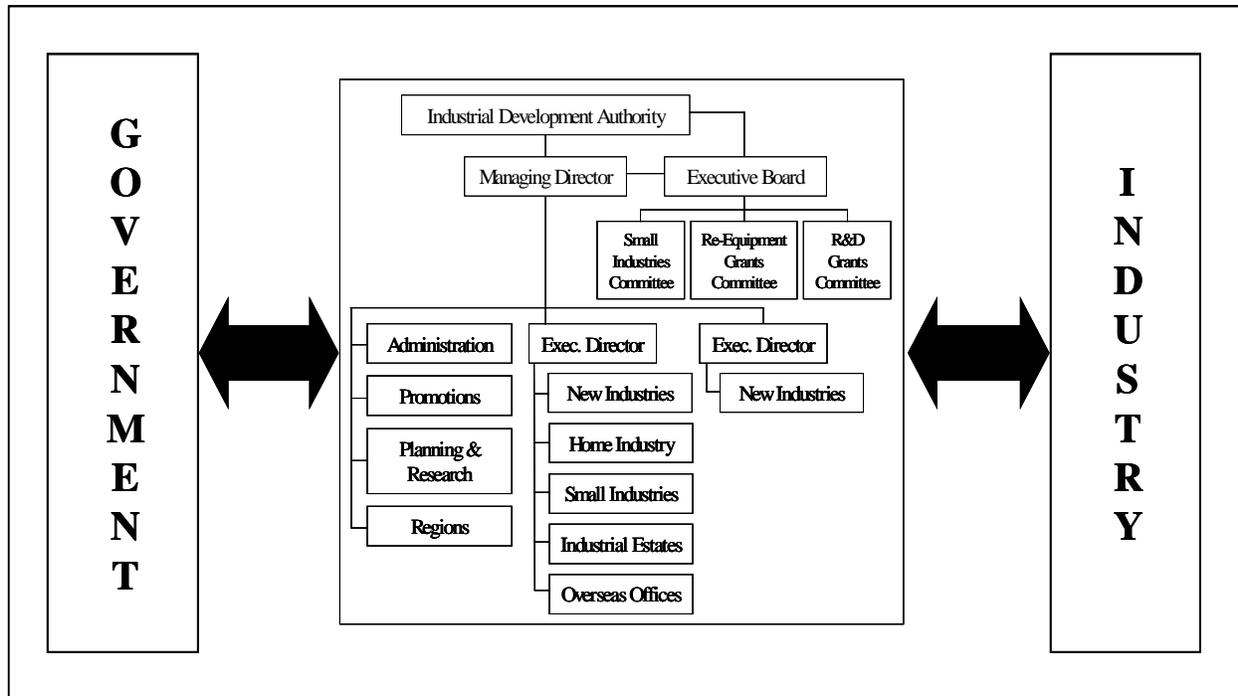
Having invested considerable set-up costs in re-creating the IDA, in terms of, for example, consultants reports, political capital, legislation and dissolution of agencies, the new IDA came into being as a state-sponsored body on April 1<sup>st</sup>, 1970. From enactment of the establishing legislation there followed considerable investment in a highly specific asset, namely an autonomous industrial development organisation, which entailed physical specificity (e.g., the IDA as an industrial development organisation, industrial development legislation, policies and programmes, party political platforms on industrial development, all of which involved design characteristics particular to industrial development), human specificity (e.g., the IDA's specialised knowledge of the industrial development environment resulting from learning-by-doing, and its special relationships with various actors resulting from repeated interactions with these actors) and dedicated assets, where the value of all assets derived from continuance of industrial development to which they were applied (Pierson, 2004).

Now vested with the formulation and implementation of national and regional industrial policy and freed from the shackles of the civil service to manage its own affairs, the IDA put in place systems, structures and institutional arrangements that have persisted over time. Re-creating the IDA entailed introducing a new organisation structure and meeting its expanded mandate saw the organisation engage in a major recruitment drive. In seeing industrial development as a 'cooperative process', requiring the participation of a range of development organisations, the IDA from early on saw value in building contacts throughout the country and devoted significant staff resources to managing them through representations of key personnel on a range of main boards, committees and organisations (e.g., C oras Tr acht ala Teoranta, Shannon Development, Institute of Public Administration, Irish Council of European Movement, Ireland-Japan Economic Association, Regional Development Organisations, County Development

Teams). It also decided to carry out many of its executive functions through committees, with delegated grant giving powers, on which other interests participated, e.g., the Confederation of Irish Industry (CII), the Irish Export Board (IEB), research institutes, universities and government departments.

The new IDA also invested in creating a Janus-faced organisation (see Figure 6 below), with one face managing the needs of and relationship with industry and the other face managing the needs of and relationship with government, very much placing the IDA itself in the position of a coordinating mechanism, the benefits of its activities being enhanced through coordinating with the activities of both government and industrial investors. Having the ear of government, the IDA was active in generating further complementarities with other policy areas, such as education and physical infrastructure. As the increasingly credible experts, the IDA was in the unique position of being able to say to government what was needed to facilitate and encourage industrial development and the delivery of new jobs, such that government listened and acted accordingly. Arguably, the IDA was able to use its position to generate increasing complementarities thereby increasing its value and reinforcing its own position.

**Figure 6:** IDA as Janus-faced Coordinating Mechanism in 1970



(Source: Donnelly, 2007: 179)

Building on the learning since promotional activity commenced in 1955, the new IDA adopted a more intensive and focused method of promotion encompassing a more selective approach, direct marketing, advertising and public relations. Having identified a sector or niche area, the task was then to single out the winning companies before they became more widely known and attractive to other development agencies. Early on, the IDA recognised the importance of putting 'our eggs in the best baskets' (McLoughlin, 1972: 35) and saw opportunity in influencing the make-up of foreign investment through identifying priority industrial sectors and established leaders in these sectors to arrive at a portfolio of investment possibilities to which the organisation applied its marketing effort (IDA, 1970/71: 15-16; O'Neill, 1972). The attractiveness of industrial sectors was assessed not only according to the criterion of commercial viability, but also on indicators of national economic benefit, to include: growth potential in international markets; potential for long-term commercial stability; low probability of technological obsolescence; potential for high added value in terms of use of indigenous raw

materials or manufactured products; high content of skilled male labour in total employment; and low capital-intensity, or if capital-intensity is high, good potential for linkage or spin-off benefits (IDA, 1974; McLoughlin, 1972; O'Neill, 1972).

Having ascertained priority sectors, the process moved on to identifying and rating established leading companies according to criteria of commercial soundness, growth potential, ability to fund new investments, locational mobility and history of responding to advantages of new investment locations (O'Neill, 1972). As noted by O'Neill (1972: 46-47), in the case of just one product area, this process whittled 21,000 companies at the start down to 1,235 candidate companies based on the criteria of interest to the IDA. Projects were rejected where the viability of the parent company was in question, where the capital intensity would be too great for a small country with limited resources, where there would be an undue negative effect on the environment, where Irish political or social mores would reprove the product produced and where low-cost labour would be the only consideration. Projects considered particularly worthy came from companies that were leaders in their field, were high-tech, high skill and high added value, offered long-term growth potential, used the country's natural resources, presented spin-off prospects to existing firms, provided jobs quickly, located in less developed parts of the country and helped sell Ireland as an FDI location (Telesis, 1982: 173).

This process yielded a number of priority sectors for future industrial development, amongst which were electronics, pharmaceuticals and medical technologies, in effect representing the early part of a sequence that would yield significant results later. For example, the IDA's sectoral strategy for the electronics industry was itself formulated in 1974, a strategy which, over the years, proved successful in the creation of path-dependent industrial clustering due to agglomeration or coordination effects. As noted by Killeen (1979: 7), '[i]n 1974, the IDA

identified the electronics sector as one which would expand rapidly in the following years. We prepared a special development strategy for the sector which has been actively implemented'. Ireland's comparative advantage in information technology was not given, rather it was created through a sequence of events unfolding over time, e.g., the IDA's strategy to focus effort on developing this sector for inward investment, successes in attracting high profile companies in the sector, etc., each of these events reinforcing the path-dependent industrial clustering and yielding increasing returns due to agglomeration or coordination effects. Prior to the selective strategy that emerged within the IDA in the early 1970s, Ireland had no electronics industry to speak of, but, by 1982, some 130 of the world's leading electronics companies were manufacturing in Ireland (Haughey, 1982: 23).

In effect, and revealing learning effects and adaptive expectations in refining a strategy it had pursued since the 1960s, the IDA went about attracting leading companies in the field, a strategy that contributed to increasing returns in the spatial location of production (Arthur, 1994; Krugman, 1991). These companies, in turn, attracted suppliers, skilled labour, specialised services and appropriate infrastructure, and contributed to the development of social networks, which facilitated the exchange of information and expertise. Further, the presence of these companies and the concentration of these factors contributed to Ireland's attractiveness for other firms in the sector, in effect, acting like magnets and influencing the locational decisions and investments of these other companies.

Thus, working from within the constrained choice-set presented by the chosen path to achieving industrial development, namely the active sourcing of foreign investment to create sustainable jobs, the IDA, on the back of a strong planning process and cognisant of its limited resources, prioritised industrial sectors and targeted leading companies that the organisation

expected would deliver a high national economic and social benefit into the future. In essence, and building on the learning gained from its earlier promotional efforts in using leading companies to attract others, coordination effects and adaptive expectations came into play in adopting this selective, targeted approach, with success over time reinforcing the approach such that it became self-fulfilling. That is, the approach delivered investment and jobs, which reinforced continued investment in the approach, which delivered further investment and jobs as agglomeration effects came into play, with the winning companies attracting investment from others in the sector, this positive feedback itself reinforcing the value of the IDA as an industrial development organisation, especially when set against the poor performance of indigenous industry.

By way of delivering results for government, and also by way of focusing the organisation on its mandate, the IDA instituted a highly quantified approach following its re-creation in 1970, which was new to state agencies at the time, namely annual targets for the creation of jobs, which were made public in advance and subsequently reported on so that the organisation could be seen to be performing in delivering results (MacSharry and White, 2000: 194). These highly visible performance measures served to reinforce the chosen path to industrial development, with achievement of targets being evidence to government and the public that the IDA were delivering results, which encouraged continued investment in the IDA, in turn delivering on targets and so on. Such were the coordination effects afforded by the IDA in terms of job creation that, in tandem with learning effects and adaptive expectations, the organisation's requests for exchequer funding, for both incentives and administration, were invariably looked upon favourably.

In terms of programme development (e.g., re-equipment and modernisation, product and process development, service industries, project identification, enterprise development), the IDA's programmes are illustrative of the learning-by-doing that occurred over time and that served to consolidate its position as the national industrial development organisation. All are indicative of its capacity to learn and to innovate, in the process ensuring its continued relevance as the focal point in coordinating industrial development policy formulation and implementation. Effectively, over time, the IDA developed programmes suited to the particular industrial development challenges it faced, illustrating that a significant amount of learning-by-doing had occurred in the increasingly complex industrial development system.

While the 1950s and 1960s were about building and consolidating the IDA's identity, credibility and legitimacy, following the critical juncture that created the 'new' IDA super-agency, the 1970s was a period of building the organisational form and further consolidating the organisation's credibility and legitimacy. The decade was capped by a progress report (IDA, 1979: 3-4) citing a litany of achievements, including an expanded, autonomous organisation employing almost 700 highly skilled staff, client company investment of £2.7bn (compared to £130m in the 1960s) for a total grant commitment of £831m and job approvals of 192,000 (compared to 45,500 for the 1960s), with 99,000 in domestic industry. To all intents and purposes, it appeared as though the significant investment of resources in the IDA, allied with its own learning and the increased coordination of policies and activities to fit with its interests, was delivering according to expectations, this positive feedback reinforcing the IDA as an organisational form. However, from the relative glory of the 1970s, the IDA moved to more challenging times in the 1980s.

## **BACK TO THE FUTURE: FROM STATE-SPONSORED SUPER-AGENCY TO AGENCY FOCUSED ON FDI**

From a path dependence perspective, the story moves from one of structural persistence to a reactive sequence that culminates in a critical juncture leading to the reorganisation of the IDA in 1994. According to Wickham (1983), Ireland's success in attracting FDI lay in the very particular situation of the IDA. As has already been noted, the organisation was effectively the sole industrial development body in the country: it had, to Telesis (1982), remained unchallenged by any power centre either in the country or outside it; it was shielded from political interference that would have impacted both policy formulation and implementation; its 'discretionary' decision-making was suited to dealing with private enterprise; and it was in a position to legitimate itself to all stakeholders as fulfilling an important national task.

Though Wickham's (1983) observation points to success with foreign investment, concerns gradually emerged throughout the 1970s about an over-reliance on such investment and its tenuous links with the economy, not to mention a dualistic industrial structure and the influence of external interests on national sovereignty (e.g., Cooper and Whelan, 1973; *The Economist*, 1977; Jacobsen, 1978; Kennedy and Dowling, 1975; Long, 1976). These concerns led the National Economic and Social Council (NESCC) to commission a five-part review in 1978 to ensure that government industrial policy was suited to creating an internationally competitive industrial base in Ireland.

One of the reviews, Telesis (1982), had the greatest impact of all in regard to the IDA and to industrial development policy. Having experienced a decade of relative glory through the 1970s, Telesis brought the IDA's legitimacy into question at a time when the country was experiencing the effects of a global recession, a poor foreign investment climate, mounting

domestic economic problems and increasing unemployment (IDA, 1980-1983; MacSharry and White, 2000; Telesis, 1982).

In assessing Ireland's then industrial policy, Telesis was complimentary on a number of fronts. It considered that the country had a clearly articulated, very advanced, extensive and consistent industrial policy, with inventive and energetic state agencies devising programmes to deliver on policy goals. With particular reference to the IDA, the review observed that it had succeeded in developing what was arguably the most dynamic, active, efficient and effective organisation of its kind in the world, with a well-earned reputation as the leading organisation in the field.

However, the Telesis review also noted weaknesses in industrial policy had contributed to weaknesses in the country's industrial structure, thus limiting the success of the country's industrial development. The review's main criticism was that industrial development had largely depended on FDI, while indigenous industry languished. It criticised the practice of creating and counting job approvals over the creation and counting of actual jobs delivered, commenting that, while there was value politically to government and motivationally to the IDA in touting job approval targets, the gap between approval and reality had the effect of creating expectations in the general population that were then not met. And from a governance perspective, it noted that, legally, government departments were responsible for determining strategy with the IDA and other development agencies responsible for strategy implementation. However, the reality was that the IDA formulated strategy in line with its job creation mandate, while government departments were both lacking in staff numbers and information sufficient to formulate strategy and oversee the implementation of this strategy by the relevant agencies.

The overall impact of Telesis was to refine both the IDA and industrial development policy (Department of Industry and Commerce, 1984; IDA, 1981, 1982, 1983). Changes were bounded and incremental, with the IDA still very much the lead industrial development organisation. The outcome of Telesis and the debate it engendered was the setting of an adjusted course, building on past success and reflecting the lessons learned from experience gained to that point. In many respects, given the complexity of the problems it confronted, i.e., a worsening fiscal crisis and increasing unemployment, government relied heavily on the pre-existing industrial development policy and organisational framework, adjusting at the margins to accommodate the demands of the situation (Pierson, 1993). The above tallies with Hall's (1989: 11) proposition that 'prior experience with related policies' is such that 'states will be predisposed towards policies with which they already have some favourable experience.'

While the global recession of the early 1980s, and its effects, engendered an industrial policy debate, the result was on-path responses entailing layering onto the existing industrial development institution. The IDA remained the focal organisation, foreign investment remained an important source for jobs and greater attention was now to be paid to indigenous industry, with the IDA and government coalescing around this on-path response through their collective effort at articulating an industrial development policy that validated the approach taken over the preceding decades and that acknowledged the learning accruing that facilitated incremental change. It was not a case that the IDA had not been doing anything with indigenous industry; rather collective learning suggested it needed to invest more into what it was already doing.

With Telesis still very much in the background, the late 1980s witnessed a number of threats to the IDA in terms of its position as the central industrial development organisation (MacSharry and White, 2000: 212), while the early 1990s witnessed yet another review of

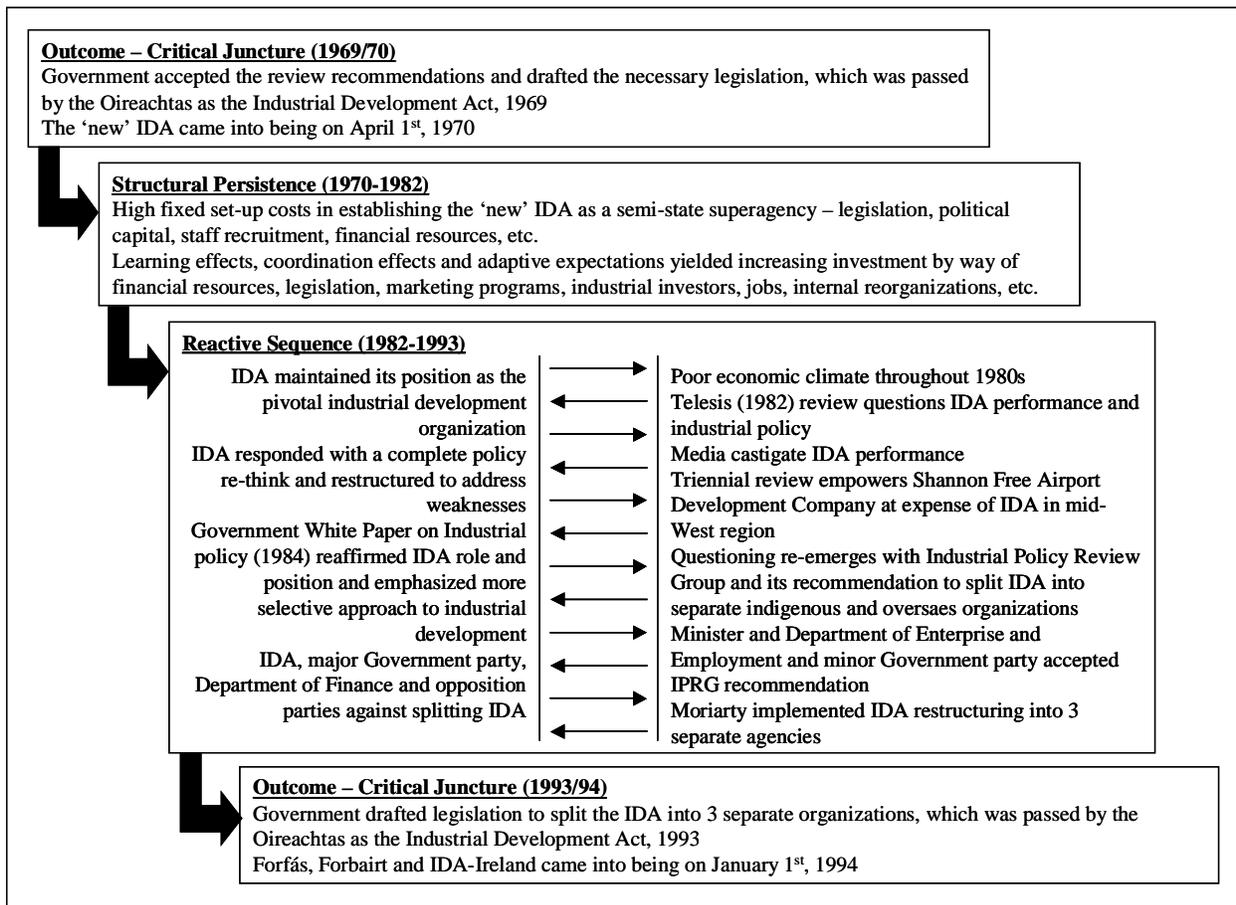
industrial policy with major ramifications for the IDA (Department of Enterprise, 1993; Industrial Policy Review Group, 1992). Representing another critical juncture, the outcome of the review saw the Department of Enterprise and Employment (formerly the Department of Industry and Commerce) reclaim the role of determining industrial policy and of supervising its implementation from the IDA, which was split into three separate organisations.

Thus, the policy refocus recommended from Telesis onwards found subsequent expression in the formal recreation of the IDA as three separate, autonomous bodies in January, 1994, each with its own board and its own distinct mission and goals. All three agencies operate within a framework which facilitates cooperation and mutual support, with Forfás, the umbrella agency, focusing on policy, Forbairt (now Enterprise Ireland) charged with promoting indigenous industry and IDA Ireland responsible for attracting FDI to Ireland. From the relative success of the 1970s, the IDA entered the 1980s under a cloud created by the Telesis (1982) review, which was exacerbated by the poor economic and jobs climate throughout the decade. The structural persistence that marked the 1970s gave way to a reactive sequence that saw both questioning of the IDA and the mechanisms generating its continuity, finding subsequent expression in the critical juncture that brought about recreation of the IDA (see Figure 7 below).

From a path dependence perspective, the change to the IDA as an industrial development organisation arguably remains within the bounds of the path being pursued since the critical juncture of the 1950s. What has transpired in the interim is that much policy learning and organisational learning has ensued, such that the state continued to invest in refining its industrial development policy and the institutional and organisational arrangements established in support of that policy. The IDA of 1955 has continued on through to the IDA Ireland of today, in terms of its sole focus on promoting internationally mobile investment by foreign interests in Ireland.

The IDA that emerged from the late 1960s, incorporating indigenous along with foreign industry, was subsequently renegotiated in the early 1990s, such that the organisational structure that existed internally was externalised through the creation of separate agencies out of the existing divisional structure.

**Figure 7: IDA Path from Industrial Development Super-agency to Agency Focused on FDI**



(Source: Donnelly, 2007: 207)

## CONCLUSION

Taking all of the above together, what emerges is a path dependence picture of the IDA’s creation within the context of a protectionist path, and subsequent production and reproduction within the context of a free trade path. We see the critical junctures marking the turn to

protectionism and then to free trade, in addition to the critical junctures marking the IDA's establishment, then its focus on development of new industry and re-focus on FDI, followed by its re-creation as a super-agency with national responsibility for all aspects of industrial development policy and implementation, and most recently its re-focus on FDI, with its responsibility for policy development and indigenous industry centred in separate, new agencies.

Post-critical junctures, positive feedback mechanisms come into play to produce and reproduce structural persistence. We see large set-up costs and ongoing investment, initially in protectionism and subsequently in a policy geared towards free trade, e.g., policy statements, policy documents, legislation, new institutions and organisations, ongoing commitment of resources (financial, political, legislative), etc. We see the knowledge gained in the operation of both policy regimes contributing to positive feedback in their continued use, such feedback incurring continued investment aimed at greater efficiency and effectiveness, for example, in the fine-tuning of legislation and the establishment of complementary organisations. Increased use of each policy regime encouraged investment in linked and complementary activities, in turn making each regime more attractive. And adaptive expectations drove continued investment in both policy regimes to reduce uncertainties, whereby the greater the expectation that policy would continue in force the greater actions would be adapted to realise those expectations. The self-fulfilling character of expectations contributed to the policy winning broader acceptance and increased the dynamic of coordination effects.

We also see such large set-up costs and investment going into the IDA, producing and reproducing an increasingly specific industrial development asset. Tremendous amounts of learning by doing has occurred in what has increasingly become a complex system, with the IDA developing strategies suited to the particular institutional matrix it has confronted. We see

widespread coordination effects, with particular courses of action encouraged, and others discouraged, given the anticipated actions of others within the industrial development sphere. We see growing complementarity between the outward-looking policy of economic development and the IDA as the increasingly focal organisation delivering on the country's industrial development. Coevolving over an extended period of time, the interactions between the two have created densely linked institutional matrices (North, 1990).

However, we also see that paths have not continued indefinitely, as was the case with protectionism and with the IDA itself. A reactive sequence emerged in response to the growing disquiet with protectionism, which culminated in the outcome or critical juncture that saw the outward-looking economic development policy take its place. The initial fortunes of the IDA played out within this reactive sequence. Its establishment attracted the threat of abolition by the opposition and it became bogged down in managing protectionism to the detriment of promoting industrial development. However, the outcome or critical juncture was favourable to the IDA in setting it on its path as an industrial development organisation through removing it of its bureaucratic burden administering the protectionist machine. The critical juncture that saw the organisation's role re-focused to attract FDI was influenced by the reactive sequence at the broader level of economic policy. The subsequent reactive sequence that resulted in the re-creation of the IDA as a semi-state super-agency was a response to the perceived and real inefficiencies of having multiple state agencies dealing with industrial investment and doing so from within the operational confines of the civil service. And the reactive sequence that began with the Telesis review in 1982 and culminated in the re-creation of the IDA as three separate agencies in 1994 reflected ongoing debate over the needs of foreign and indigenous investors,

the scope of industrial policy and the division and location of policy development and policy implementation responsibility.

In the final analysis, from relatively contingent and unpredictable beginnings have coevolved both an institution and an organisational form. In the case of the IDA, both the forces for structural persistence and those of reactive sequences have contributed to producing and reproducing an increasingly fine-tuned, specific asset, an organisational form that, *ex ante*, could not have been predicted when it was first established.

Today, supporting export-oriented, foreign multinational organisations, which employ some 136,000 people and account for some €110bn or 70 per cent of total exports, and continuing to promote and attract inward investment (IDA, 2010), IDA Ireland remains an important organisation in the Irish enterprise development institutional landscape. Notwithstanding this, with the Special Group on Public Service Numbers and Expenditures (2009: Vol.II, 79-82) report, and its recommendations to rationalise the various aspects of IDA Ireland and other development agency operations, only time will tell what will become of IDA Ireland into the future. Notwithstanding appearances, change is ever present.

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