



GLOBAL SOURCING & TRYST WITH GROWTH

SERIES VIII: BUSINESS ECOSYSTEMS – ENABLERS, OR CONSTRICTING?

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STATE OF INDUSTRIAL ECOSYSTEMS

The modern industrial world globally is quite comfortable with delving into the topic around the need for, and attendant benefits waiting to be derived from building and maintaining structured ecosystems that would provide assurances of continuity and growth. Starting in the 50s we have begun to see the spread of industrialization around the world – slowly yet steadily – encompassing both an understanding, and a realization that industries create jobs, productive capacities, and economic growth. The need for policy alignment became quite important as governments began to see the benefits of doing so, principally in attracting foreign capital into nascent (or yet uncreated) sectors within their economies. Closely following policy development basic (and necessary) infrastructure needed deployment in a manner that assurances of continuity were provided, resulting in creation of controlled environments where investing organizations could conduct business without the inhibitions posed by the host nation's larger economic and infrastructural woes. Export processing zones, tax-free zones, all built on the back of either specific investments or generic aspirations around certain sectors came to fruition in many parts of the world. Some nations like India had the added benefit of leveraging existing infrastructure left by their colonial masters, while others continue to contend with lackadaisical or non-existent infrastructure like in Africa¹.

These controlled environments did much to bring industrial development to most parts of the world. Governments realized the benefits of new industrial sectors – manufacturing, textiles, ship-building – leading one to believe that economic development is assured so long as governments did the necessary to construct structures driven by policy and tax decisions under dedicated oversight mechanisms, where the benefits of jobs and export revenues would flow directly into their economies. This premise continues to hold good today, but its facets seem to have shifted dramatically. Advent of globalization, new democracies, new markets, and new ecosystems did give investors more choices than they had before, resulting in a competitive field-of-play where consumptive demands in industrialized markets drove much of the thinking around sustainability of production ecosystems. Most ecosystems built in the past began to lose out to newer ones² until one nation – China – came to become the replacement for most such ecosystems globally.

¹ *India had a massive rail transportation network since the British East India Company built it to assist them with extraction of natural resources and ensure efficient transportation to ports. Given that India had only one colonial master it was quite easy for them to envisage an extractive policy that didn't conflict with that of any other master. On the other hand, Africa wasn't that lucky owing to the fact that many parts of the continent were under various colonial masters, who at best didn't see eye-to-eye, hence there weren't any attempts to coalesce around one single objective. The resultant is that the continent continues to suffer from inadequacy as it relates to transportation infrastructure which has come to become their single biggest impediment to economic growth and access to markets. Patchy rail networks built over a century ago remain woefully inadequate.*

² *Manufacturing ecosystems in most parts of the world began to lose out to China. Jamaica lost its textile industry first to Nicaragua and Guatemala and then to Brazil and Colombia. Similarly India lost out to Sri Lanka, Bangladesh and Pakistan, while Malaysia lost its electronic manufacturing prowess to Vietnam, Taiwan and Thailand. Likewise, many manufacturing ecosystems lost out to nations that provided similar ecosystems within the ambit of cheaper and more predictable cost environments.*

The most fascinating aspect of this growth in ecosystems is the reflection of a double-edged sword. One side reflected a growing local economy that (finally) began to take charge of its own growth (however limited in its impact, or however excluded most of the population continued to be), since simple structures like policy flex and tax holidays/ leeway were all that were necessary to encourage adoption. The other side of course was witness to the ever-present Damocles sword of sustainability – or lack of it. Cost-sensitivities resulted in movements of such industrial sectors from one to the other nation, much to the chagrin of the nation losing out. Nevertheless, organizations saw their business and supply chains blooming with global footprints, and therefore continued in their quest.

Meanwhile the governments that had enabled such ecosystems did indeed see spillover retained benefits in the form of entrepreneurs (contributing to parts of the supply chains of the larger investors), or creating smaller-scale replicas within and serving local / regional markets. The premise that most such industrial sectors were built by leveraging capital assets – land, physical infrastructure, cheap (and untrained) labor – there seems to me (in retrospect) that scant regard was placed in gazing into the future to determine if sustainability was necessary to be incorporated. Most did not, and the rooster came home to roost at some point, leaving many economies with messy situations. However, the fundamental premise that building such an ecosystem didn't take much continues to be a beacon of hope for those nations who have not yet begun the journey.

MODERN-DAY ECOSYSTEMS & THE NEXT SILICON VALLEY

The advent of globalization, democratization of knowledge, spread of telecommunications and information access worldwide has now given rise to the need for creating new ecosystems, those that would compliment creation and development of new-age economic sectors manifested in information and knowledge. Old export-processing zones, tax-free zones began to be replaced with Science & Technology Parks, with aspirations that echoed the past endeavors at manufacturing ecosystems. Governments rallied around building such dedicated zones – again using policy, financial and tax levers – with the hope that investors from knowledge-enabled sectors would leverage these zones and create jobs, revenues and spillover economic growth.

It is interesting to note that at the beginning of the millennium countries as diverse as India and China to Jamaica and Egypt began to invest (or borrow from developmental institutions like the World Bank and IADB) in technology parks. Many nations³ began to emulate and aspired at creating their own version of Silicon Valley (considered the best ecosystem in the world). “The Next Silicon Valley” seems to have become the mantra driving almost all nations. As investors began to flock to these nations, the illusion that they have been able to build the next Silicon Valley embedded itself into the mindset of policy-makers and leaders more than ever. Scant regard

³ *These include countries across the planet – Singapore, Malaysia, Thailand, Sri Lanka, Colombia, Brazil, Uruguay, Serbia, Ukraine, Czech Republic, Hungary, Romania, Poland, Egypt, Jordan, Jamaica, Dominican Republic, Belize, Honduras, Guatemala, South Africa, Kenya, Nigeria, Ghana, Senegal, Mauritius, Zimbabwe, Namibia, Malta, Cyprus, Vietnam, India, China, Philippines, Taiwan, UAE, Oman, Tunisia, Chile, Costa Rica, Argentina. Many have succeeded in creating Tech Parks, while many others haven't been able to sustain the very industrial sectors that were meant to leverage these parks, owing to a variety of reasons (spanning the spectrum of economic failure to lack of geopolitical stability and many other reasons in-between).*

was given to the fact that in most cases, investors from the global sourcing and technology world were dealing with intangible capital assets (unlike in the yesteryears where hard and tangible capital assets were the driving currency), which necessitated provisioning of ecosystems conducive to such asset-types, as opposed to standard replication of old ecosystems. In my opinion, most nations failed miserably by assuming that if they built, investors would come (a policy construct manifested in its most alarming form in nations like China and Malaysia, and more benignly in other nations like Costa Rica or Jordan).

The nature of ecosystems required to support modern-day industrial sectors is much more variegated than understood. The next Silicon Valley is an aspiration, and will remain so for most of the planet for a long time. I am not stating this out of pessimism. Rather I see a fundamental lack of appreciation for understanding the complexity and matrix relationship environment an ecosystem of the order and magnitude of Silicon Valley consists of. Most governments do make a beeline to visit the Valley, meet with stalwarts like Google, Apple and others, rubbing shoulders with the who's who and feeling enlightened. Of course most such conversations do not get to specifics on what the Valley leveraged, only what the Valley helped create. And therein lay the failure of most ecosystems that are being built in a jiffy. Advice from entities like the Next Silicon Valley publishing group that doles out "how to" in small learning packages to nations and opportunistic investors (from the construction community) only muddles up the understanding further, adding to the complexity and failed aspirations.

THE COMPONENTS THAT MATTER

There will not be another Silicon Valley. I make no apologies for this statement as I shall explain why. Pursuit of modernity is seen more as a function of showcasing well-architected buildings, efficiently networked both physically and technologically, and offering a conducive and professional work-play-live environment. The tech parks within which such facilities are provisioned don't necessarily take into account that there are crucial "soft and intangible" components that make or break the ecosystem's aspirations at nurturing competencies and creating economic value, and most such components are outside the gamut of the controlled environment a tech park offers.

Components like enmeshed academia-industry collaboration, policy levers that are non-interfering (from an oversight or boundary conditions), competitiveness aspects as a function of end-user utility value, seed-to-commercialization sub-system support components not pigeonholed within the context of modern technologies⁴, restructuring educational systems from secondary school onwards where applicability-led learning replaces traditional siloed teach-to-learn models, and environments where risk capital is attracted most effectively are all necessary to even build a modicum of a sustainable and impactful ecosystem. This needs to be supplemented by private sector leadership that looks into a medium-term future without being governed by their strategies entrenched into their bottom-lines alone. Such leadership is almost non-existent in many developing nations as

⁴ Many nations have – and continue to – provide such support systems where the emphasis is on whether the budding entrepreneur/ ideator leverages a certain modern technology – like Big Data – and how proficient he/she is in the technology. The emphasis on what the idea is meant to achieve, influence or impact is almost always an afterthought.

it's more a function of local culture and limitations, rather than the lack of any enabling environment. Read simply, failing entrepreneurs in developing nations can no longer blame the rest of the world (competition, nation's unfettered open-market environment etc) for their misery.

It greatly saddens me when you hear statements from people like Adam Marsh⁵ state that software technology parks have a growing role in the global innovation ecosystem enabling shift in how novel ideas and discoveries establish market relevance and commercial significance. He goes on to state that for *"tech startups, access to expert resources is increasingly more available and there is greater potential for interaction and collaboration within a community (both real and virtual, local and global) given our tech connectivity. When considered in total, the co-existence of diverse talents and expertise that are accessible to entrepreneurs forms an innovation ecosystem where new technological discoveries can be rapidly vetted locally for commercial potential and then deployed on larger scales as a viable business"*. He adds, *"Bringing such resources together into one community can lead to the emergent organization of a larger and more efficient innovation and entrepreneurial ecosystem from a synergy of individual talents. This kind of ecosystem can greatly facilitate the development of ideas from innovators with little or no prior entrepreneurial experience (i.e., academic faculty) and thus recruit more of the limiting currency needed in today's tech markets: creative expertise."* I am inclined to think that Professor Marsh is yet to understand the intricacies of a thriving ecosystem that enables, not structures (with boundary conditions) an environment for innovation, and that his exclusionist view only serves to alienate the population that we all hope to carry the world into a better future globally.

The abuse with innovation is well-known, but acknowledged little as it makes for inconvenient conversations. Taking a leaf off the pages of a developing nation like Malaysia, one can easily see the futility with multiplicity of ecosystems where redundancies thrive in the name of emphases specific to sub-sectors like IT, Bio-technology, Mobile Solutions etc. The success of an ecosystem is not in just putting some components together and assuming that success is just a function of promotions/ marketing and market access. Interestingly, the popular view is that a government is very supportive of an industry when it sets aside loads of money in the form of grants to support entrepreneurialism (as in Malaysia). Inconvenient however is the discussion that most such nations (where government has become the lender of the first and last resort) reflect the fact that private (and risk) capital has ignored entrepreneurs, and there must be crucial reasons for such disinterest. Why is it happening? Answers are many, while deliberations few.

The resilience of an ecosystem lies in its ability to transcend controlled environments and become mainstay drivers of economic changes within. Of course, most ecosystems are presumptive, that (a) ideators need seed-capital and lots of unsolicited advice on how to run their businesses, including structuring revenue-models, (b) they need to compulsorily work with named institutions to benefit from seed-capital (notwithstanding the fact that risk capital is always, repeat always available when the idea has a sound and value-aligned objective), and (c)

⁵ Adam Marsh is an Associate Professor at the University of Delaware, who made this statement recently in the Huffington Post.

commercialization of a product/ solution necessarily needs to follow a structured process written and validated by academics or the government.

Is there really a need for a controlled environment to allow innovation to thrive? Is there really a necessity for putting barriers to innovation just by defining it? Is there the need to define and qualify innovation as a component parcel of the technology it deploys, rather than the need or opportunity it aims to address? Is there a need for creating ecosystems that promise a roadmap to success (because someone else did it and therefore makes sense for us to do so likewise) as opposed to enabling creation of a resilient environment where needs-discovery precedes all aspects surrounding modernity? Is there so much of a role for governments to play anymore in the context of borderless business models and aspiring consumers? Is this a desire to control outcomes, or showcase proximity to the Valley?

IN CONCLUSION

Interestingly the point Marsh makes about creative expertise is both underappreciated and misplaced. Economics of developing nations are subject to vagaries of a widespread nature – from dwindling natural resources, and population explosion to reduced access to basic needs (food, energy, water) and stressed physical/ geological environments within urban communities. The need to tap into (democratized) knowledge and create solutions that help resolve more thorny issues plaguing communities within particular countries/ regions is greater – much greater – than the desire to provision an ecosystem for a bunch of organizations that don't see their businesses as interwoven components of the economies they aspire to temporarily leverage. The world and its budding entrepreneurs have a unique opportunity to learn from successful entrepreneurs who have created resilient socio-economic enterprises (not just modern enterprises that mean nothing more than a failed aspiration for more than half of humanity), and recreate in their own environments models that transcend all aspects of showcasing and half-measures at being seen as modern. Their societies deserve, and demand greater proximity to local realities that the local entrepreneurs and governments are best placed to understand, and make a difference of.

The need to create cohesion between enabling governments and ideating entrepreneurs requires more than just aping modern ecosystems elsewhere. We are in a time when inclusive human and societal progress is within our reach, when commercial solutions can benefit more than just financially, when ecosystems ala controlled environments are no longer necessary to build outcomes that have been pre-agreed. Human (and economic) progress is not a function of the success of an individual (entrepreneur) alone, but a slave to the communal mindset of not doing anything about an opportunity. Replicating is easy, and mostly irrelevant in the larger context of both sustainability and resilience (economic and social). Pursuit of modernity at all costs is an insult to rational thought when facts are ignored; it's a systemic mishap where safety through anonymity is considered participatory contribution. I have always believed that reason – not emotion or a love-affair with popularity – may lead to harsh discoveries, but never the incorrect ones. Developing ecosystems therefore are also fundamental in nature – their structure and construct is not a function of putting together a few pieces of a puzzle, but more about a systemic review of contributing factors that are way beyond the confines of any current definitions of industrial development or sector modernity.

ABOUT THE AUTHOR



Bobby is one of the top 25 most powerful leaders in the global sourcing space, and the [founding] **Chairman & CEO** of **Matryzel Consulting Inc**, adjudged as one of the **World's Best Outsourcing Advisors** which focuses on strategy consulting, sourcing advisory and sector development. Matryzel advises corporations and governments worldwide adopt concerted strategies aimed at enhancing competitiveness while focusing on their core competencies. He advises federal governments across four continents on ICT sector development with particular emphasis on policy development, industry-government partnerships aimed at creating GDP growth and enabling positive economic impacts. Bobby has advised Fortune 500 customer organizations on Strategic Planning, Mergers & Acquisitions, JVs, Private Capital Investment Evaluations, Process Reengineering, Pricing Strategies, Sourcing Relationships, Business & Financial Modeling et al, contributing immensely to global sourcing for clients. He is a sought-after speaker in conferences and round-tables worldwide where he moderates panels and presents content on thought leadership. He has been quoted and published in Forbes, fDi, Economist, The Outsourcing, ZDNet, CIO Africa, Brazil Exportati, Times of India, Business Week, New Straits Times, Malaysian Business, Technology Inquirer, Logical Worldpress etc.

