

## **Developing world class industrial clusters**

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The famous management guru, Michael Porter uses the term “clusters” to describe geographical concentrations of interconnected companies and institutions in a particular business. Clusters include suppliers of components, machinery, services and institutions which provide specialised infrastructure. Sophisticated, demanding customers can also be considered a part of the cluster. So can the local government, universities, research centres and think-tanks who play a vital role in encouraging innovation and facilitating more efficient value addition.

It is clusters which make a great business location. They help in improving productivity, by providing superior infrastructure. Clusters create economies of scale without the need for vertical integration. They create a virtuous cycle of growth by attracting new companies and businesses. And most importantly, clusters attract talented people in that business, from all parts of the world. This creates a positive environment which encourages innovation.

So, even in a globalised economy, location matters. The challenge for Hyderabad is to make itself one of the preferred locations for doing business. To get ahead of rivals like Bangalore, Hyderabad would do well to set for itself global benchmarks.

How can Hyderabad develop world class industrial clusters? Useful insights can be obtained by analyzing the spectacular growth of what is today the world's most famous industrial hub, Silicon Valley. In a 50 mile long corridor stretching from San Jose to San Francisco, a deep cluster of computer hardware and software companies backed by venture capitalists and legal experts has developed. Companies are demonstrating how knowledge can be harnessed to generate wealth at a rate which other regions can only dream of. The Valley is the place today for any talented IT professional.

The transformation of Silicon Valley from a region of apricot and prune orchards into a global innovation centre has indeed been phenomenal. The Valley's success driven primarily by young entrepreneurs shows that competitiveness has more to do with mindset rather than heritage or pedigree. It also brings out the importance of academia-industry interface in accelerating industrial development. Stanford has played no small role in the development of the Valley. In fact, had it not been for Stanford, Bill Hewlett and David Packard may have never got around to setting up Hewlett Packard, the first big company to emerge in the Valley. The Valley has created conditions where entrepreneurship can thrive. For example, a company can be incorporated in a matter of hours. Sun Microsystems CEO. Scott McNealy has recalled the ease with which his company started operations: "We were able to open a checking account on our word. We were able to rent a building without showing an ID. We were able to get phone lines and Wilson Sonsini (a law firm in Palo Alto) filled a huge boardroom table full of documents for us to sign. Actually, on their word processor, they just changed a previous name to our name." Venture capital is also easily available in the valley. Venture capitalists look at the quality of ideas rather than past track record while evaluating proposals. So, even youngsters, with little or no corporate experience have a good chance of tying up funds

The Valley has fostered a culture where the penalties are not for failures but for not trying. The business environment has bred a class of entrepreneurs called 'repeaters' who often fail in a new venture but learn the lessons well and bounce back to tie up funding and run a new

business. The Valley's strong belief seems to be that a good idea is the most precious commodity. An entrepreneur who falters at the first attempt is sure to learn his lessons well and be successful, the next time around.

In short, Hyderabad has to work simultaneously on two fronts to develop deep and vibrant industrial clusters. The first is the hard infrastructure consisting of items such as roads, telecom and internet connectivity that make it easy to do business. Equally important is the soft infrastructure which includes educational institutions, legal experts and a thriving group of venture capitalists. As S Nanadakumar, President, VN Vision and a leading consultant in the city points out, "The essence of clusters is not brick and mortar but human networks."

There are a number of initiatives which the A P government can launch. The Chief Minister must hasten the process of setting up an Indian Institute of Technology (IIT) in the city. T Muralidharan, CEO, TMI Network feels that an IIT can give a big boost to knowledge based entrepreneurship. He adds that concerted efforts should be made to create a new generation of educated, knowledge driven entrepreneurs who are not afraid to take risk. And like in Silicon Valley, the government should educate young entrepreneurs that failure is a stepping stone to success. Steps should be initiated to facilitate the early closure of non viable units and encourage the entrepreneurs to launch a new initiative. For this, the necessary legal mechanism must be in place.

Above all, for a cluster to take shape, a new mindset characterized by risk taking is required. But creating a risk taking culture among the educated elite is not easy. Even prosperous countries like Singapore are struggling in this regard. But given the will and the inclination, there is no reason why Hyderabad cannot develop deep clusters of knowledge based industries like computer software, bio technology and pharmaceuticals.