

India's MSMEs in the Era of Hubanomics

ISED Discussion Paper

by
ISED Small Enterprise Observatory
jointly with
ISED Centre for Enterprise Development



Institute of Small Enterprises and Development

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This monograph forms part of the '*ISED Discussion Paper*' series of the Institute. Brought out by ISED Small Enterprise Observatory (ISED-SEO), the Institute's knowledge platform, titles under this Series are meant to offer a platform for discussion on some of the latest developments in the economy and society. The contents of this document may be used for debates and discussions, as also for preparation of course materials, but with due acknowledgement only.

Preface

In every democracy, the developmental outcomes are decided by people's aspirations, to begin with. These aspirations need to be articulated through effective platforms. Institutions are the outcome of these platforms and their initiatives. People's mandate legitimizes the actions of institutions. Unless public policy, evolved through democratic process, gives the signals, one cannot expect India to realize its aspirations on the MSME front.

We are now in the era of the Fourth Industrial Revolution. The paradigm of Hubanomics has redrawn the SME landscape globally. Against such changes, it is necessary to examine the new challenges and opportunities of the sector from a futuristic point of view. The purpose of this Discussion Paper is to bring to light some of the least known aspects of the subject. It is also meant to initiate a wider discussion on the subject so that it may contribute to public policy and strategies.

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Cochin

February 23, 2017

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Abstract

We are now in the era of the Fourth Industrial Revolution. The paradigm of Hubanomics has redrawn the SME landscape globally. Against such changes, it is necessary to examine the new challenges and opportunities of the sector from a futuristic point of view. In every democracy, the developmental outcomes are decided by people's aspirations, to begin with. These aspirations need to be articulated through effective platforms. Institutions are the outcome of these platforms and their initiatives. People's mandate legitimizes the actions of institutions. Unless public policy, evolved through democratic process, gives the signals, one cannot expect India to realize its aspirations on the MSME front. Analysing the key trends in the MSME scene of India, this paper analyses the policy imperatives as also the growth perspectives.

Key words: Hubanomics, growth perspectives, futuristic point of view

1.0. Introduction

The very fact that India has emerged as a key player in the global economy, necessitates a fresh look at the opportunities as also the constraints before its MSMEs. Unlike in the case of many other countries, MSMEs in India adorn a prominent place in its manufacturing map. The drastic changes in the global manufacturing map, as also the broad outlook of the imminent changes in India, are critical from the angle of the very success of flagship programs such as 'Make in India' and 'Start-up India'. The basic purpose of the 'India MSME Report' series is to bring to the limelight a scholarly view of the latest scene of MSMEs in the country, besides presenting a pointer to the emerging scene. This reporting exercise, over the last nineteen years, has done a significant job relating to this primary task, besides initiating a role of bringing together the relevant stake holders in a single platform. India MSME Report 2016 should be understood as an important addition to this innovative exercise. It has, undoubtedly, helped to trigger a debate on the key issues of MSME development in India. The purpose of our discussion in the following pages is to add to this lengthy debate.

2.0. Hubanomics : The Emerging Global Paradigm

What is the emerging scene in global trade and investment today? An understanding of this emerging scene is critical for understanding the prospects of SMEs, as also of their economic surroundings. According to Adam Burns, a dynamic mix of re-shoring, intra regional trade, and hubanomics, form the emerging global business model today. The conclusion by Adam Burns is based on the phenomenal growth of knowledge companies like Google, Apple, Facebook and Amazon during the last two decades. They created a technology wave and competitive landscape, which according to Burns, forms the next evolution of the

Industrial Revolution.

2.1. Emerging Production Structure

Three overarching developments have been cited to be of a major impact on global economy today: 1) the re-shoring of production to the developed markets, from off shoring which was characteristic of the active phase of globalization; 2) the growth of intra-regional trade and hubanomics.

2.1.1. Re-shoring and Intra Regional Trade

While in the first phase of globalization, the substantial differences in labour cost was the major driver of off-shoring, the process has been reversed because of the diminishing labour cost differences. Moreover, intra regional trade growth is happening because of emerging city states. More recently, governments of the Western countries are promoting Investment Parking rather than investments abroad. Another reason for promotion of investment parking, is the enhanced quality consciousness of the home countries.

Another line of argument relates to enhanced customization of products. The argument is that customization must be done close to the market, or the benefits are outward by slow delivery times and extra cost.

2.2. What is Hubanomics?

The above line of argument indicates that, beyond the 'New Competition' and its strategic corollary called 'flexible specialization', globalization is becoming increasingly choosy on the flow of investments and location decisions. Rather than looking for the cheapest of destinations, investments increasingly tend to get located in regional hubs. The unifying factor for such regional convergences is knowledge and skills. Therefore, regional trade hubs,

Box No: 1

The Emerging Global Business Model

According to Adam Burns, a dynamic mix of re-shoring, intra regional trade, and hubanomics, form the emerging global business model today. The conclusion by Adam Burns is based on the phenomenal growth of knowledge companies like Google, Apple, Facebook and Amazon during the last two decades. They created a technology wave and competitive landscape, which according to Burns, forms the next evolution of the Industrial revolution. Three overarching developments have been cited to be of a major impact on global economy today: 1) the re-shoring of production to the developed markets, from off shoring which was characteristic of the active phase of globalization; 2) the growth of the intra-regional trade and hubanomics.

creativity hubs, innovation hubs, and manufacturing hubs, all capitalized on the power of specialized, clustered knowledge and talent. More than simple supply and demand, hubanomics is the new phase of globalization.

Within the emerging paradigm as above, global corporations themselves have their particular strategies. For example, Diageo, the world largest producer of spirits has its own logistic hubs, where the Company does customization, centralizes its inventories, and reduces its stock holding. Astra Zeneca, the pharmaceutical giant, claims to have three types of manufacturing facility: 1) **Global sites** from where products are launched all over the world; 2) **Regional Hubs** in China, America, and Europe, from where operations take place once a particular scale is reached; and 3) **Market Access Sites**, meant essentially for overcoming specific regulations and rigidities in particular countries.

The experience, as we have in 2016, is one where every business has a tendency of operation based on a hub. The operational strategy involves three stages: 1) harmonization; 2) standardization; and 3) movement to the hub. For most multinational companies, their business strategy proceeds on this three-stage approach.

The Global Trends Report, 2014, by Malnight and Keys, (2014), proposed the term 'Hubanomics' as a trend characterizing the global business in the future. This theory argues that global business will be increasingly distributed both in terms of production and consumption. This implies that, there need to be new business models to deliver local value through such hubified activity.

The notion of a 'hub' is a key delivery and conceptual model that will assist the development and delivery of a company's global engagement plan and its ambitions. According to Andrew Coulsun, CEO, Dimensions Data,

"what we provide is not totally unique, so what we do, do it, make the critical difference" (2014).

As production and consumption get increasingly more distributed, hubs will characterize the next wave of globalization. These hubs will specialize to support the needs of growing regional trade, emerging city states, online communities of choice, and the next generation of flexible workers and entrepreneurs. From the point of view of development of enterprise and entrepreneurship, this emerging trend has much significance. The concept of hub is that of a vibrant centre of knowledge, art, science, politics, technology, religion, skills, exploration, and economic growth that would lead to the development of the hinterland around them.

The world economy is turning to be increasingly multi polar rather than as power blocks. A major facilitator has been the enhanced role of the 'new economy', facilitated by the micro electronics revolution. Multiple mega cities are growing in many countries. R&D hubs are sprouting globally, which, in turn, move closer to the needs of different markets. On lines of the Silicon Valley, several such models have been replicated around the world. This is the essence of the theory of hubanomics.

From the point of view of public policy, there are several challenges and opportunities offered by hubanomics. The challenge for business, governments, and communities is to develop new ways to tap into the power of specialized and clustered knowledge and talent to position themselves for success and long term advantages. It also implies that new models of business and governance also need to be developed in tune with the emerging paradigm of hubanomics, in such a way that global assets and hub's strength can contribute to deliver local value.

For SMEs, the emerging paradigm offers both opportuni-

Box No: 2

Three-Stage Approach of Global Business

The experience as we have in 2016, is one where every business has a tendency of operation based on a hub. The operational strategy involves three stages: 1) harmonization; 2) standardization; and 3) movement to the hub. For most multinational companies, their business strategy proceeds on this three stage approach.