Reflections on a Hypothesis:
Lessons for Policy, Research, and Corporate Practice

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Agenda

• How the Porter Hypothesis emerged

• What has changed

• Implications for continuing environmental progress in 2010

• Applying the principles to other societal issues
Origins of the Porter Hypothesis

• Empirical observation

• Learning on the firm and competitive advantage

• Shifting definition of competitiveness

• New thinking about the role of location in competitiveness
The Firm and Competitive Advantage

The Value Chain

- All competitive advantage **resides** in the value chain. Strategy is manifested in how activities in the value chain are **configured** and linked together.
What is Competitiveness?

• Competitiveness is the productivity with which a nation uses its human, capital, and natural resources
  – Productivity sets the standard of living
  – Productivity growth sets sustainable economic growth
• Productivity and prosperity depends on how a nation competes, not what industries it competes in
• Relentless innovation is necessary to drive productivity growth and enable standard of living to rise
  – Technology, products, and organizational methods

• Nations compete to offer the most productive environment for business
• The public and private sectors play different but interrelated roles in creating a productive economy
The Role of Location in Competitiveness

Context for Firm Strategy and Rivalry

- A local context and rules that encourage productivity
  - e.g., incentives for capital investments, intellectual property protection
- Incentive systems based on merit
- Open and vigorous local competition, especially among locally based rivals

Demand Conditions

- More sophisticated and demanding local customer(s)
- Local customer needs that anticipate those elsewhere
- Unusual local demand in specialized segments that can be served nationally and globally

Related and Supporting Industries

- Access to capable, locally based suppliers and firms in related fields
- Presence of clusters instead of isolated industries

Factor (Input) Conditions

- Availability of high quality, specialized inputs available to firms
  - Human resources
  - Capital resources
  - Physical infrastructure
  - Administrative infrastructure (e.g., registration, permits)
  - Information infrastructure (e.g., economic data, corporate disclosure)
  - Scientific and technological infrastructure
  - Natural resources

Many things matter for competitiveness

Successful economic development is a process of successive upgrading, in which the business environment improves to enable increasingly sophisticated ways of competing
Clusters and Competitiveness
The Spanish Wind Energy Cluster

Collaborative Design/R&D Facilities

Universities

Subcomponent Manufacturers

Turbine Manufacturers

Supporting Industries (engine, bearing manufacturers)

Wind Consultancies

Trade Associations

Legislators (national, EU, regional)

Specialized NGOs

Financiers

Project Developers

Wind Farm Construction & Operation

Market Participants

Institutions

Source: Harvard student team - Emily Bolon, Matthew Commons, Frank Des Rosiers, Paz Guzman, Nicholas Kukrika (2007)
The Process of Economic Development

Old Model

• Government drives economic development through policy decisions and incentives
• Top-down

New Model

• Economic development is a collaborative process involving government at multiple levels, companies, teaching and research institutions, industry associations, and other institutions for collaboration

• Competitiveness should be a bottoms-up process in which many individuals, companies, and institutions take responsibility
Developments Since 1991

• Wide acceptance in business

• Learning by regulators
  – E.g., outcomes not methods
  – Innovation not abatement

• Learning by NGOs
  – Some NGOs have made a “business” of environmental improvement
  – Collaboration with the private sector

• Profound shift in societal values
  BUT

• Zero-sum thinking persists

• Ongoing political challenges
Some Implications for Policy

Find and expand win-win opportunities

• Expand measurement and benchmarking
• Support research and diffusion of learning
• Simplify regulatory processes and make them less costly, less time consuming, and more transparent
• Pursue consistency and international harmonization of policy
• Harness clusters/collaboration models
• Lengthen time horizons
  – Capital markets
Implications for Research

- Careful, holistic, longitudinal case studies
  - Matched pairs across geography/settings
- Richer data sets
  - Single industry empirical studies
- Methodology defined by the problem
  - Lags, learning effects
Implications for Corporate Practice

• Some companies still treat environmental impact as CSR, not as a tool to drive innovation and competitiveness

• Use environmental innovation as a tool for strategic positioning, not just best practice improvement

• There are numerous opportunities for cluster-based approaches to improving environmental performance
Defining the Boundaries of Capitalism

- Narrow cost minimization
- Ease of outsourcing, relocating, and globalizing
- Shortening time horizons
- Tradeoff mindset in both companies and stakeholders
Sources of Competitive Advantage: New Learning

- Social deficits create economic cost
- External constraints reduce company productivity
Creating Shared Value

Shared Value: Corporate policies and practices that enhance the competitiveness of the company while simultaneously advancing economic and social conditions in the communities in which it operates.

- Find and expand the congruence between economic and societal objectives, rather than assume tradeoffs or the need for redistribution
  - Driven by value creation thinking

- Shared value arises from a deeper understanding of the drivers of competitiveness and competitive advantage
  - The opportunities are growing

- Achieving shared value requires new operating practices, new technologies, and new approaches to competing

- Shared value thinking also applies to government/NGOs
Levels of Shared Value

• Use shared value thinking to **reconfigure the value chain** to drive productivity

• Create **products** that meet social needs

• Build **clusters** and a **supportive local external context** to enhance productivity and create self-reinforcing economic development
The Purpose of Business

• There is an opportunity to **transform thinking and practice** about the role of the corporation in society, using the concept of **shared value**

• Shared value arises from a **deeper understanding of doing business** that transcends narrower conceptions of economic efficiency that have guided company operations

• Shared value thinking will provide new **catalysts** for global economic growth and the next wave of **innovation** and **productivity** in the global economy

• Businesses acting as businesses, not as charitable givers, are arguably the **most powerful force** for addressing many pressing issues facing our society

• A transformation of business practice around shared value will give **purpose** to the corporation and to capitalism itself, and represents our best chance to **legitimize business again**