

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

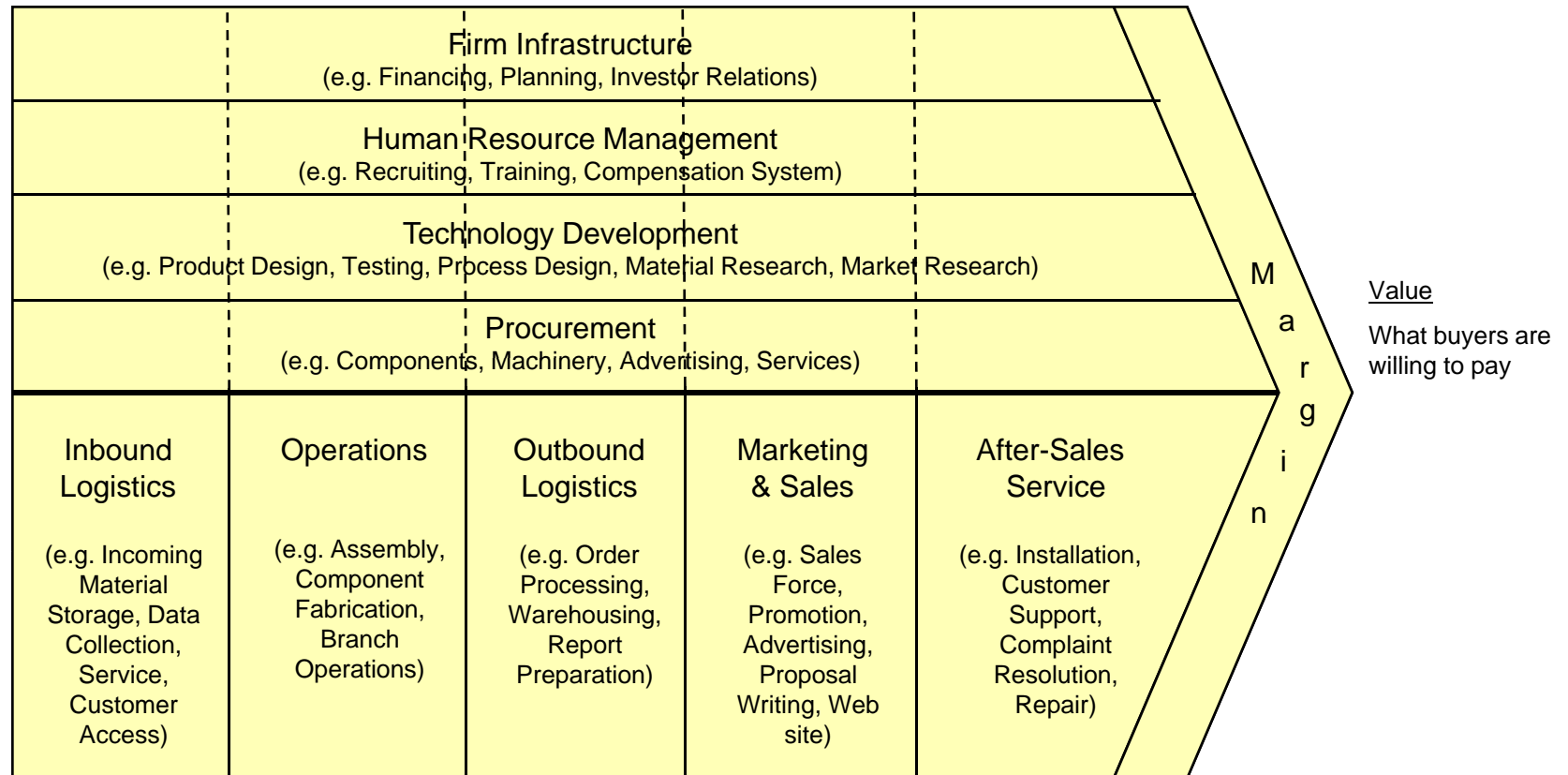
- Empirical observation



- 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

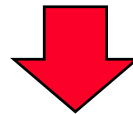
The Value Chain



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

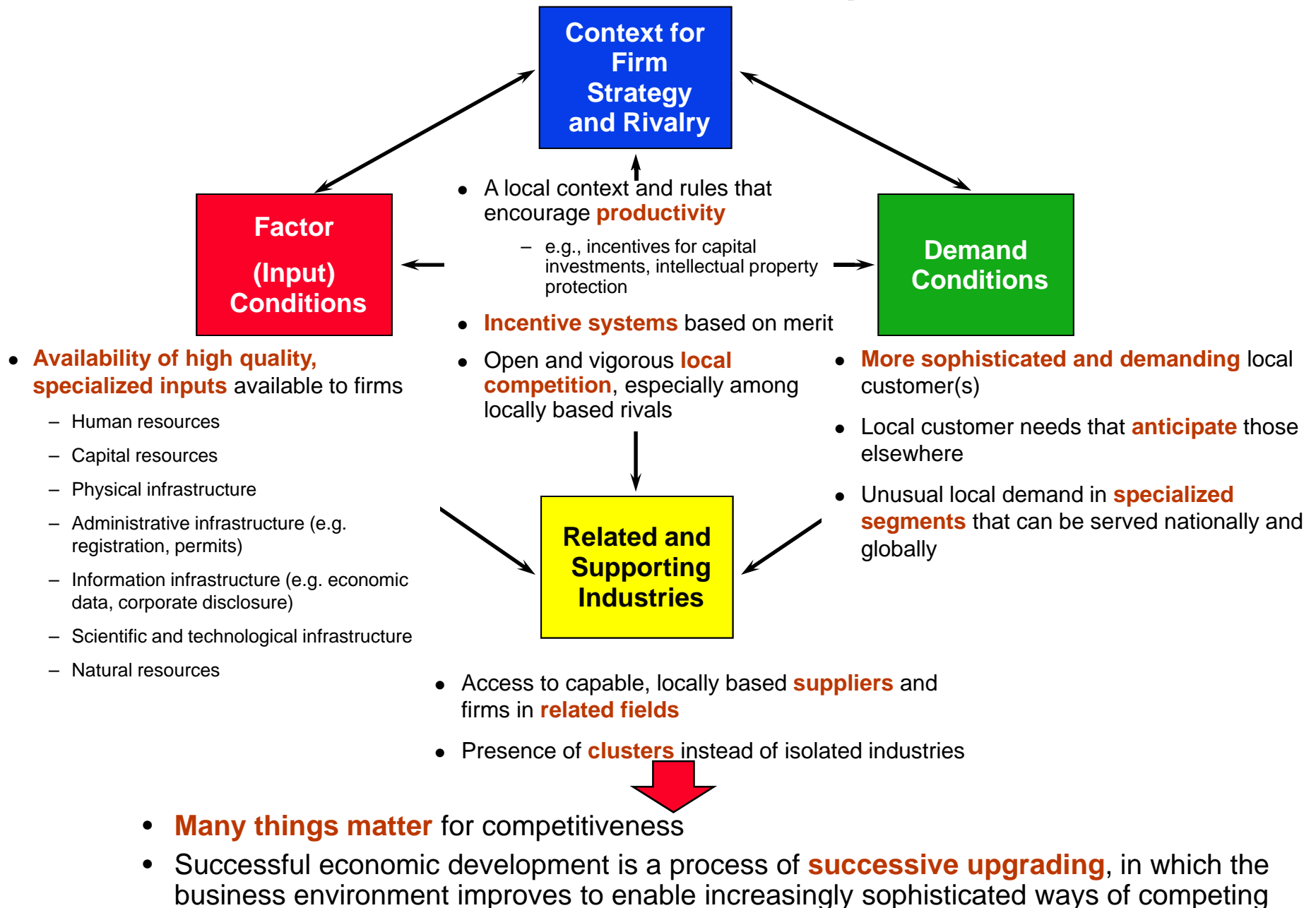
What is Competitiveness?

- 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



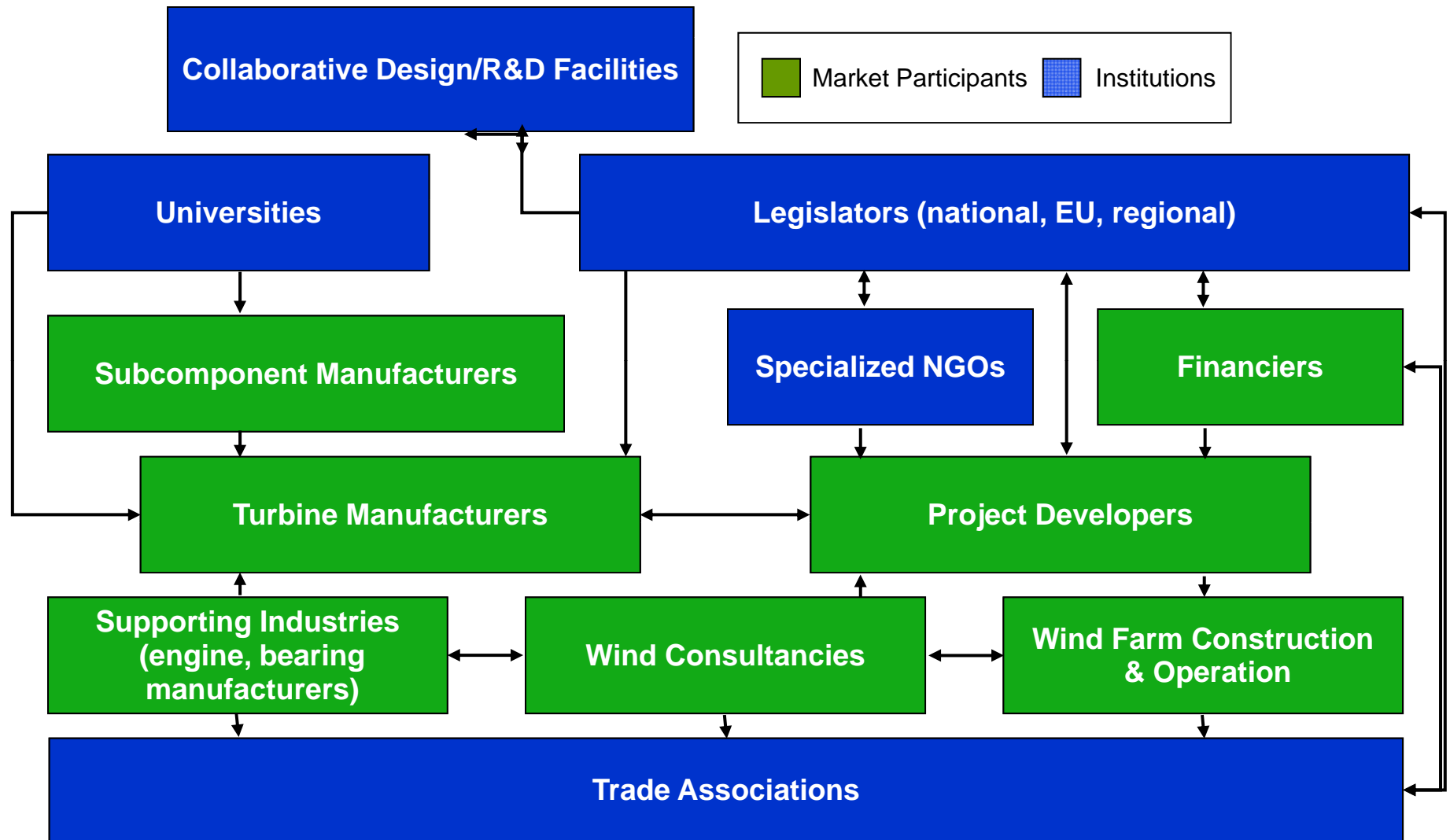
- Nations compete to offer the **most productive environment for business**
- The public and private sectors play **different but interrelated roles** in creating a productive economy

The Role of Location in Competitiveness



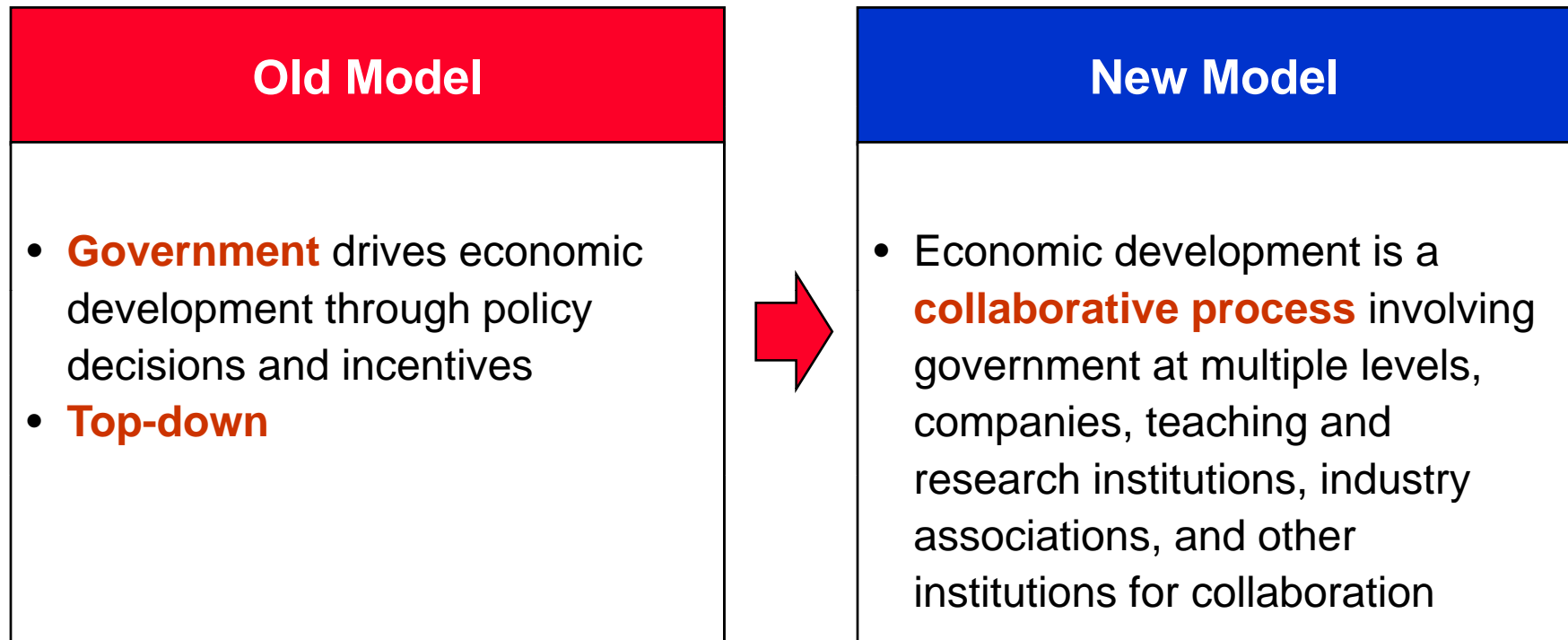
Clusters and Competitiveness

The Spanish Wind Energy Cluster



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

The Process of Economic Development



- 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

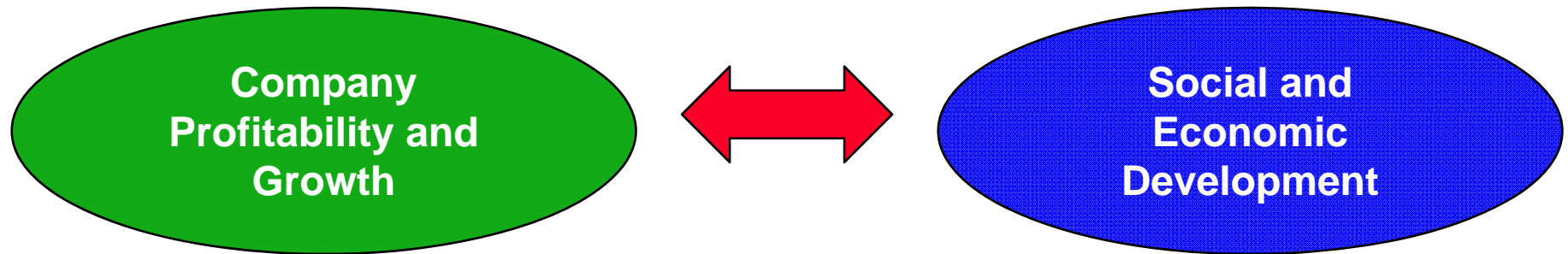
Implications for Research

- 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

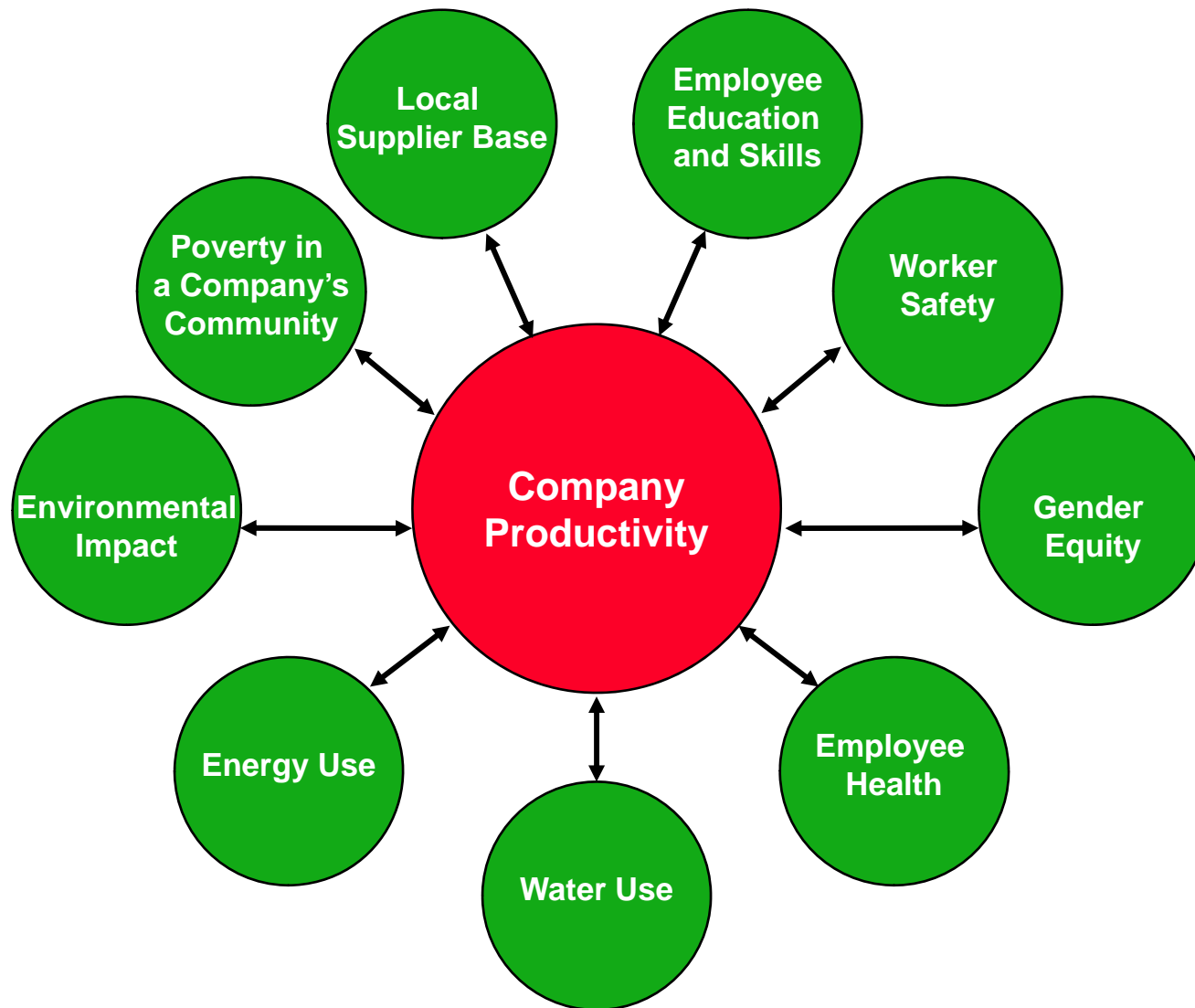
- Some companies still treat environmental impact as **CSR**, not as a tool to drive innovation and competitiveness
- Use environmental innovation as a tool for **strategic positioning**, not just best practice improvement
- There are numerous opportunities for **cluster-based approaches** to improving 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**