Building a Competitive Mexico: The Role of Business

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What is Competitiveness?

Mexico is a competitive location to the extent that firms operating here are able to compete successfully in the global economy while supporting high and rising wages and living standards for the average citizen.

- Competitiveness is not low wages or a cheap peso
- Competitiveness depends on improving long-run productivity
  - Productivity of existing employees
  - High participation of working age citizens in the workforce
What Determines Competitiveness?

- Endowments, i.e. **natural resources, geographical location, and size**, create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**
What Determines Competitiveness?

- Macroeconomic competitiveness sets the *economy-wide* context for high productivity to emerge, but is **not sufficient** to achieve this outcome.
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What Determines Competitiveness?

- **Fiscal Policy:** Public spending aligned with revenues over time
- **Monetary Policy:** Low levels of inflation
- **Economic Stabilization:** Avoiding structural imbalances and cyclical overheating
What Determines Competitiveness?

- Human Development: Basic education, health care, equal opportunity
- Rule of Law: Property rights and due process
- Political Institutions: Stable and effective political and governmental processes and organizations
Productivity ultimately depends on improving the microeconomic capability of the economy and the sophistication of local competition revealed at the level of regions and clusters.

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What Determines Competitiveness?

Microeconomic Competitiveness
- Quality of the National Business Environment
- State of Cluster Development
- Sophistication of Company Operations and Strategy

Macroeconomic Competitiveness
- Sound Monetary and Fiscal Policies
- Human Development and Effective Political Institutions

Endowments

Internal skills, capabilities, and management practices enabling companies to attain the highest level of productivity and innovation possible.
What Determines Competitiveness?

The quality of external business environment conditions supporting company productivity, innovation, and growth

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Endowments
Improving the Business Environment

Context for Firm Strategy and Rivalry

Factor (Input) Conditions
- Local **rules and incentives** that encourage investment and productivity
  - e.g. incentives for capital investments, IP protection, sound corporate governance standards
- Open and vigorous **local competition**
  - Openness to foreign competition
  - Strict competition laws
- Access to high quality **business inputs**
  - Qualified human resources
  - Capital availability
  - Physical infrastructure
  - Scientific and technological infrastructure
- Availability and quality of **suppliers** and **supporting industries**

Demand Conditions
- **Sophisticated and demanding** local needs
  - e.g., Strict quality, safety, and environmental standards

**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

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Concentrations of firms, suppliers, and related institutions in each field to enable productivity and innovation

Endowments
What is a Cluster?
Tourism Cluster in Cairns, Australia

Public Relations & Market Research Services

Food Suppliers

Travel Agents

Attractons and Activities e.g., theme parks, casinos, sports

Tour Operators

Hotels

Restaurants

Airlines, Cruise Ships

Local Retail, Health Care, and Other Services

Local Transportation

Souvenirs, Duty Free

Banks, Foreign Exchange

Government Agencies e.g. Australian Tourism Commission, Great Barrier Reef Authority

Educational Institutions e.g. James Cook University, Cairns College of TAFE

Industry Groups e.g. Queensland Tourism Industry Council

Local Retail, Health Care, and Other Services

Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden
Cluster Emergence and Development  
The Australian Wine Cluster

1930  First oenology course at Roseworthy Agricultural College

1955  Australian Wine Research Institute founded

1965  Australian Wine Bureau established

1970  Winemaking school at Charles Sturt University founded

1980  Australian Wine and Brandy Corporation established

1990  Winemaker’s Federation of Australia established

1991 to 1998  New organizations created for education, research, market information, and export promotions

1950s  Import of European winery technology

1960s  Recruiting of experienced foreign investors, e.g. Wolf Bass

1970s  Continued inflow of foreign capital and management

1980s  Creation of large number of new wineries

1990s and 2000s  Surge in exports and international acquisitions

Clusters provide a framework for **organizing the implementation** of many public policies and public investments directed at economic development.
Regions and Competitiveness

• Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
Prosperity Performance in Mexican States

Mexico Real Growth Rate of GDP per Capita: 1.36%

Mexico GDP per Capita: $77,212

Source: INEGI. Sistema de Cuentas Nacionales de México.
Regions and Competitiveness

• Economic performance \textit{varies significantly} across sub-national regions (e.g., provinces, states, metropolitan areas)

• Many essential levers of competitiveness reside at the \textit{regional level}

• Regions \textit{specialize} in different sets of clusters and \textit{cluster strength} drives regional performance
Traded Cluster Composition of the Puebla Economy

Overall change in the Puebla Share of Mexican Traded Employment: +0.09%

Puebla Overall Share of Mexican Traded Employment: 4.20%

Employees 5,000 =

Regions and Competitiveness

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• Each region needs its own distinctive **competitiveness strategy and action agenda**
  – Business environment improvement
  – Cluster upgrading
Creating a National (and Regional) Economic Strategy

National or Regional Value Proposition

- What is the **distinctive competitive position** of the nation / region given its location, legacy, existing strengths, and potential strengths?
  - What unique strengths as a business location?
  - What roles in the broader region?
  - What types of activities and clusters?

Developing Unique Strengths

- What **elements of the business environment** can be unique strengths relative to peers/neighbors?
- What **existing and emerging clusters** can be built upon?

Achieving and Maintaining Parity with Peers

- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer locations?

- **Priorities** and **sequencing** are essential to building competitiveness
Benchmarking Competitiveness
Mexico’s Competitiveness Profile, 2011

Country Competitiveness
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- Rule of Law
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- Human Development
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Microeconomic Competitiveness
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- National Business Environment
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- Company Operations and Strategy
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Note: Rank versus 132 countries; overall, Mexico ranks 53rd in PPP adjusted GDP per capita and 61st in Global Competitiveness
The Role of Business in Social and Economic Development
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering
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- Corporate Social Responsibility (CSR)
  - Compliance with community standards
  - Good corporate citizenship
  - “Sustainability”
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- Creating Shared Value (CSV)
  - Integrating societal improvement into economic value creation itself
  - Driving social improvement with a business model
Societal Needs and Economic Value Creation

- **Social** deficits create **economic** cost
- “**Externalities**” shape **internal** company productivity
- Social needs represent the **largest market opportunities**
Moving to Shared Value
Fair Trade

- Paying a **higher price** to farmers for the same products
- **Certification** as a fair trade company

Transforming Procurement
- Collaborate with farmers to **improve quality and yield**
- Supporting investments in **technology** and **inputs**
- Higher prices for **better quality**
- Higher yield increases **quantity** produced
Levels of Shared Value

I: Reconceiving needs, products, and customers
   – Meeting societal needs through products
   – Addressing unserved or underserved customers in your industry

II: Redefining productivity in the value chain
   – Change practices in the value chain to drive productivity by better utilizing resources, employees, and business partners

III: Enabling local cluster development
   – Improving the available skills, suppliers base, and supporting institutions in the communities in which a company operates to boost productivity, innovation, and growth
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Redefining Productivity in the Value Chain

- Shared value purchasing
- Energy and resource efficiency
- Leveraging location of facilities
- Strengthening local distribution channels

- Logistical efficiency
- Enhancing the productivity of lower income employees and improving their wages
- Improving employee health
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The Role of Business in Mexican Competitiveness

Action Agenda

Improving skills
• Create or expand an apprentice program
• Create or expand a training program
• Partner with a community college, technical school, or university

Supporting innovation and entrepreneurship
• Participate in research collaboratives in company’s field
• Invest in or incubate promising startups related to company’s business

Upgrading supporting industries
• Identify and increase sourcing from capable local suppliers
• Mentor local suppliers to upgrade their capabilities

Collaborating on regional business environment improvement
• Participate in a regional competitiveness initiative in your region
The Purpose of Business

• Our purpose in business is to create shared value for society, not economic value for its own sake

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

• Shared value will give rise to far broader opportunities for economic value creation

• Shared value thinking will drive the next wave of innovation, productivity, and economic growth in Mexico

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