Economic and Social Development: The New Learning

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Harvard Business School

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There is a powerful connection between economic and social development, that goes in both directions.

Successful development requires improving the economic and social context simultaneously.
Economic and Social Development: The New Learning

1. Strategy for Economic Development

2. Measuring Social Development

3. Business as a Driver of Social and Economic Development
Prosperity Performance
Latin America and the Caribbean

PPP-Adjusted GDP per Capita, 2011 ($USD)

Growth in Real GDP per Capita (PPP-adjusted), CAGR, 2001-2011

Source: EIU (2012), author's calculations
Competitiveness and Economic Development

• Successful economic development only occurs by improving **competitiveness**

A nation (or state) is competitive to the extent that firms operating there are able to **compete successfully** in the regional and global economy while supporting **high and rising wages and living standards** for the average citizen.

• Competitiveness depends on the **long-run productivity** of a location as a place to do business
  - Productivity of existing firms and workers
  - Ability to achieve high participation of working age citizens in the workforce

• Competitiveness is **not**:
  - Low wages
  - A weak currency
  - Jobs per se
Endowments

- Endowments, including natural resources, geographical location, population, and country size, create a foundation for prosperity, but true prosperity arises from productivity in the use of endowments.
What Determines Competitiveness?

- Macroeconomic competitiveness sets the **economy-wide** context for productivity to emerge, but is **not sufficient** to ensure productivity.

- Endowments, including **natural resources, geographical location, population, and country size**, create a **foundation** for prosperity, but true prosperity arises from **productivity in the use of endowments**.
What Determines Competitiveness?

Microeconomic Competitiveness

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

Macroeconomic Competitiveness

- Sound Monetary and Fiscal Policies

Endowments

- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition** revealed at the level of firms, clusters, and regions.
- Macroeconomic competitiveness sets the **economy-wide** context for productivity to emerge, but is **not sufficient** to ensure productivity.
- Endowments, including **natural resources, geographical location, population, and country size**, create a **foundation** for prosperity, but true prosperity arises from **productivity in the use of endowments**.
Improving the Quality of the Business Environment

**Factor (Input) Conditions**

- Access to high quality business inputs
  - Qualified human resources
  - Capital availability
  - Physical infrastructure
  - Scientific and technological infrastructure

**Demand Conditions**

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

**Related and Supporting Industries**

- Availability and quality of suppliers and supporting industries

**Context for Firm Strategy and Rivalry**

- 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

**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.
Developing Clusters
Tourism in Cairns, Australia

- Public Relations & Market Research Services
- Food Suppliers
- Property Services
- Maintenance Services
- Travel Agents
- Tour Operators
- Attractions and Activities e.g., theme parks, casinos, sports
- 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

Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden
What Determines Competitiveness?

Microeconomic Competitiveness
- Quality of the 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
Geographic Influences on Competitiveness

- Regions are the **most important economic unit for competitiveness** in larger countries, especially countries beyond subsistence development.
Prosperity of 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
Traded Cluster Composition of the Puebla Economy

The Role of Regions in Economic Development

• Many essential levers of competitiveness reside at the regional level
• Regions specialize in different sets of clusters

• Regions are a critical unit in competitiveness
• Each region needs its own distinctive strategy and action agenda
  – Business environment improvement
  – Cluster upgrading
  – Improving institutional effectiveness
Geographic Influences on Competitiveness

- Economic coordination and integration with neighboring countries is a **major force of productivity and competitiveness**
Economic and Social Development: The New Learning

1. Strategy for Economic Development

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3. Business as a Driver of Social and Economic Development
Social Development
What is Social Progress?

Social progress is the capacity of a society to meet the **basic human needs** of its citizens, establish the **building blocks** that allow citizens and communities to enhance and sustain the quality of their lives, and create the **conditions for all individuals to reach their full potential**
Driving Social Development

• Economic progress has a **positive impact** on social progress, but rising GDP per Capita **does not guarantee** social progress

• We must measure social progress **directly** in order to understand performance and inform improvement

• The **Social Progress Index** is a new tool to do so
  – Separate from economic indicators
  – Holistic framework
  – Outcomes rather than inputs
  – Relevant to all countries

• By separating social and economic progress, we can **better** understand **overall** country performance and how social and economic performance are **linked**
Social Progress Index Model

Social Progress Index

Basic Human Needs
- Nutrition and Basic Medical Care
- Air, Water, and Sanitation
- Shelter
- Personal Safety

Does a country provide for its people’s most essential needs?

Foundations of Wellbeing
- Access to Basic Knowledge
- Access to Information and Communications
- Health and Wellness
- Ecosystem Sustainability

Are the building blocks in place for individuals and communities to enhance and sustain wellbeing?

Opportunity
- Personal Rights
- Personal Freedom and Choice
- Inclusion and Equity of Opportunity
- Access to Higher Education

Is there opportunity for all individuals to reach their full potential?

Opportunity

Foundations of Wellbeing

Basic Human Needs

Does a country provide for its people’s most essential needs?

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Opportunity

Foundations of Wellbeing

Basic Human Needs

Does a country provide for its people’s most essential needs?
Social Progress Index: 2013 Rankings

1. Sweden
2. United Kingdom
3. Switzerland
4. Canada
5. Germany
6. United States
7. Australia
8. Japan
9. France
10. Spain
12. Costa Rica
13. Poland
14. Chile
15. Argentina
16. Israel
17. Bulgaria
18. Brazil
19. United Arab Emirates
20. Turkey
21. Dominican Republic
22. Colombia
23. Thailand
24. Peru
25. Mexico
26. Philippines
27. Paraguay
28. Tunisia
29. Georgia
30. Viet Nam
31. Jordan
32. China
33. Russian Federation
34. Kazakhstan
35. Botswana
36. Sri Lanka
37. Morocco
38. Indonesia
39. South Africa
40. Egypt, Arab Rep.
41. Ghana
42. Bangladesh
43. India
44. Senegal
45. Kenya
46. Rwanda
47. Mozambique
48. Uganda
49. Nigeria
50. Ethiopia
Social Progress Index vs. GDP per Capita

PPP-Adjusted GDP per Capita, 2011 (USD)

Social Progress Index vs. GDP per Capita

Argentina, Australia, Bangladesh, Botswana, Brazil, Bulgaria, Canada, Chile, China, Colombia, Costa Rica, Dominican Republic, Egypt, Ethiopia, France, Georgia, Germany, Ghana, India, Indonesia, Israel, Japan, Jordan, Kazakhstan, Kenya, Mexico, Morocco, Mozambique, Nepal, Nigeria, Paraguay, Peru, Philippines, Poland, Russia, Rwanda, Senegal, South Africa, South Korea, Spain, Sweden, Switzerland, United Arab Emirates, United Kingdom, United States, Vietnam, United States

30 $0
35 $10,000
40 $20,000
45 $30,000
50 $40,000
55 $50,000
60 $60,000
65
70
### Brazil Social Progress Scorecard

**Overall Rank 18**

#### Basic Human Needs

<table>
<thead>
<tr>
<th>Category</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nutrition and Basic Medical Care</td>
<td>27</td>
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<tr>
<td>Undernourishment</td>
<td>29</td>
</tr>
<tr>
<td>Depth of food deficit</td>
<td>31</td>
</tr>
<tr>
<td>Maternal mortality rate</td>
<td>25</td>
</tr>
<tr>
<td>Stillbirth rate</td>
<td>23</td>
</tr>
<tr>
<td>Child mortality rate</td>
<td>24</td>
</tr>
<tr>
<td>Prevalence of tuberculosis</td>
<td>24</td>
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#### Foundations of Wellbeing

<table>
<thead>
<tr>
<th>Category</th>
<th>Rank</th>
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</thead>
<tbody>
<tr>
<td>Access to Basic Knowledge</td>
<td>26</td>
</tr>
<tr>
<td>Adult literacy rate</td>
<td>32</td>
</tr>
<tr>
<td>Primary school enrollment</td>
<td>25</td>
</tr>
<tr>
<td>Secondary school enrollment</td>
<td>19</td>
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<tr>
<td>Women’s mean years in school</td>
<td>30</td>
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#### Opportunity

<table>
<thead>
<tr>
<th>Category</th>
<th>Rank</th>
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<tbody>
<tr>
<td>Personal Rights</td>
<td>15</td>
</tr>
<tr>
<td>Political rights</td>
<td>17</td>
</tr>
<tr>
<td>Freedom of speech</td>
<td>12</td>
</tr>
<tr>
<td>Freedom of assembly/association</td>
<td>1</td>
</tr>
<tr>
<td>Private property rights</td>
<td>18</td>
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<tr>
<td>Women’s property rights</td>
<td>1</td>
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#### Air, Water and Sanitation

<table>
<thead>
<tr>
<th>Category</th>
<th>Rank</th>
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</thead>
<tbody>
<tr>
<td>Indoor air pollution attributable deaths</td>
<td>31</td>
</tr>
<tr>
<td>Outdoor air pollution attributable deaths</td>
<td>18</td>
</tr>
<tr>
<td>Access to piped water</td>
<td>16</td>
</tr>
<tr>
<td>Rural/urban access to improved water source</td>
<td>34</td>
</tr>
<tr>
<td>Access to improved sanitation facilities</td>
<td>29</td>
</tr>
<tr>
<td>Access to wastewater treatment</td>
<td>24</td>
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#### Shelter

<table>
<thead>
<tr>
<th>Category</th>
<th>Rank</th>
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</thead>
<tbody>
<tr>
<td>Availability of affordable housing</td>
<td>28</td>
</tr>
<tr>
<td>Access to electricity</td>
<td>22</td>
</tr>
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</table>

#### Personal Safety

<table>
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<th>Category</th>
<th>Rank</th>
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</thead>
<tbody>
<tr>
<td>Homicide rate</td>
<td>47</td>
</tr>
<tr>
<td>Level of violent crime</td>
<td>39</td>
</tr>
<tr>
<td>Perceived criminality</td>
<td>36</td>
</tr>
<tr>
<td>Political terror</td>
<td>38</td>
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#### Health and Wellness

<table>
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<th>Rank</th>
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<tbody>
<tr>
<td>Life Expectancy</td>
<td>27</td>
</tr>
<tr>
<td>Obesity</td>
<td>27</td>
</tr>
<tr>
<td>Cancer death rate</td>
<td>27</td>
</tr>
<tr>
<td>Deaths from cardiovascular disease &amp; diabetes</td>
<td>22</td>
</tr>
<tr>
<td>Deaths from HIV</td>
<td>45</td>
</tr>
<tr>
<td>Availability of quality healthcare</td>
<td>45</td>
</tr>
</tbody>
</table>

#### Ecosystem Sustainability

<table>
<thead>
<tr>
<th>Category</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ecological footprint of consumption</td>
<td>29</td>
</tr>
<tr>
<td>CO2 emissions per capita</td>
<td>20</td>
</tr>
<tr>
<td>Energy efficiency (use per $1,000 GDP)</td>
<td>29</td>
</tr>
<tr>
<td>Water withdrawals per capita</td>
<td>20</td>
</tr>
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</table>

#### Inclusion and Equity of Opportunity*

<table>
<thead>
<tr>
<th>Category</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity of opportunity for ethnic minorities</td>
<td>1</td>
</tr>
<tr>
<td>Women treated with respect</td>
<td>43</td>
</tr>
<tr>
<td>Community safety net</td>
<td>9</td>
</tr>
<tr>
<td>Tolerance of immigrants</td>
<td>13</td>
</tr>
<tr>
<td>Tolerance for homosexuals</td>
<td>6</td>
</tr>
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</table>

#### Access to Higher Education

<table>
<thead>
<tr>
<th>Category</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tertiary school enrollment</td>
<td>33</td>
</tr>
<tr>
<td>Female tertiary enrollment</td>
<td>31</td>
</tr>
</tbody>
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*Brazil GDP per capita rank is 24th among sample of 50 countries*
Social Progress vs. Government Expenditure (% of GDP)

Government Expenditure Source: 2013 Index of Economic Freedom
The Social Progress Index: Key Findings

• Economic development is **necessary but not sufficient** as a measure of national performance

• Just as economic development helps social progress, social progress can enable **sustainable economic development**

• Some approaches to economic development are **less effective** than others in advancing social progress, and even counterproductive, and vice versa

• The amount of government spending (as a percent GDP) is an **incomplete explanation** for social progress performance
The Social Progress Imperative: Driving to Action

The Social Progress Imperative is not just an Index, but a global effort designed to catalyze action at the country level. It aims to form and support National Committees of leaders and stakeholders in each country, and work jointly with them to mobilize policy changes and private sector initiatives to advance social progress.
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The Role of Business in Society

• Only business can create wealth and prosperity

• Business is facing growing scrutiny as the cause or contributor to many of today’s societal challenges, not the solution

• Corporate social responsibility efforts are greater than ever, but the legitimacy of business has fallen

• Government and NGO’s alone lack sufficient resources and capabilities to fully meet social challenges

We need a new approach
The Role of Business in Society
Evolving Approaches

- Donations to worthy social causes
- Volunteering
The Role of Business in Society
Evolving Approaches

Philanthropy
- Donations to worthy social causes
- Volunteering

Corporate Social Responsibility (CSR)
- Compliance with community standards
- Good corporate citizenship
- “Sustainability”
- Mitigate risk and harm
The Role of Business in Society
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

Corporate Social Responsibility (CSR)

- Compliance with community standards
- Good corporate citizenship
- “Sustainability”
- Mitigate risk and harm

Creating Shared Value (CSV)

- Address societal needs and challenges with a business model

20131004—Panama Development Presentation—FINAL
CSR versus 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

**CSR**

**CSV**
Social deficits and environmental impact create economic costs for companies.

Community weaknesses affect company productivity.

Social needs represent the largest market opportunities.
Levels of Shared Value

I. Meeting social needs through **products** and **underserved** customers

II. Redefining **productivity in the value chain**

III. Improving the **local and regional business environment**
Creating Shared Value in Products and Markets

Jain Irrigation Systems

• Drip irrigation equipment for small farmers in Africa and India
• Serves more than 4 million farmers worldwide as of 2012

• Reduces water use by over 40%
• Enables higher crop yields that improve food security while raising farmers’ income
• Jain is now a $820 million company that is rapidly growing
Creating Shared Value in Products and Markets

Becton Dickinson Health Worker Safety

- There is pressing need to protect health workers from **needle stick injuries** that spread HIV and other infections
- BD redesigned syringes to **prevent** accidental sticks

- Substantial **reduction in health worker injuries**
- **$2 billion** in revenues in 2012, representing 25% of the company’s revenues
- Largest source of **company growth** over the past two decades
Shared Value in the Value Chain
Fibria, Brazil

• Fibria, the world’s leading manufacturer of chemical pulp, utilizes **planted eucalyptus trees** rather than native and old growth forests, and cultivation methods that incorporate partial native habitat

• The company also encourages **small-scale producers** near its mills to plant eucalyptus in conjunction with other crops, assisting them with technical training and inputs

• Fibria achieves far greater land and water efficiency versus old growth forest production and traditional methods

• Small scale producers currently contribute 27% of the **raw materials** utilized in Fibria mills, improving efficiency

• **4000 households** have significantly increased their income
Shared Value in the Value Chain
Consorcio Panamá Frío, Panamá

• Consorcio Panamá Frío, the largest food supplier in Panamá, is committed to strengthening the **cold value chain** while improving the productivity of its suppliers

• The company provides technical assistance to **farmers** to enable them to meet minimum quality standards and efficient flow of products to Consorcio’s collection centers

• The company has **reduced waste** of perishable food products and improved quality

• Farmers have achieved an average of **21% improvement in good agriculture practices**, **26% improvement in proper use of agricultural supplies** and **68% improvement in cash management**
Improving the Business Environment: Upgrading Channels

Arca Continental

• Arca Continental is the **second largest bottling company** in Latin America, and **one of the largest Coca-Cola bottlers** in the world

• Arca Continental established a program to train and invest in the **micro-entrepreneur retailers** who sell more than 60% of the Company’s products, including **management, sales and marketing** and **merchandising**

• Invests in **low energy use coolers and fixture improvements**

• Participating retailers register **sales increases of 25%** or more, with improved customer satisfaction, leading to similar **increases in the sales of Arca’s products**

• Arca Continental **recovers its investment** in 6 months or less

• Beginning in **Mexico**, the program is being extended to **Argentina** and **Ecuador**
Integrating Across Levels
Novartis in Rural India

Reconceiving Products and Markets
- Portfolio of the appropriate and affordable medicines from the company’s patented, generics, and over-the-counter (OTC) businesses
- Packaging of OTC medicines to address consumers’ limited ability to spend out-of-pocket on healthcare

Redefining Productivity in Value Chain
- Local sales teams that know the culture and speak the dialect, understand needs and reduce mistrust
- A dense network of local distributors to reduce stock-outs

Enabling Local Cluster Development
- A community health education program to address lack of health-seeking behavior
- Frequent health camps for physicians in rural areas
- Microfinance partners to improve healthcare infrastructure and access to working capital
New Stakeholder Roles and Relationships

- The focus on social impact **unites the goals** of companies, NGOs, and government
- Shared value fosters **new relationships** between companies, philanthropists, NGOs, and government in addressing social issues

<table>
<thead>
<tr>
<th>Traditional Roles</th>
<th>New Roles</th>
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<tbody>
<tr>
<td><strong>NGOs</strong></td>
<td>• Partner in implementing new shared value business models</td>
</tr>
<tr>
<td>• Receive grants to deliver social services</td>
<td>• Make platform investments and support shared value strategies; regulate to encourage shared value solutions</td>
</tr>
<tr>
<td><strong>Governments</strong></td>
<td>• Partner with companies and NGOs to catalyze shared value initiatives</td>
</tr>
<tr>
<td>• Tax and regulate business; operate social programs</td>
<td></td>
</tr>
<tr>
<td><strong>Philanthropists</strong></td>
<td>• Donate to charitable causes</td>
</tr>
<tr>
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</table>
Creating Shared Value: Deciding Where to Concentrate

- Opportunities to create shared value are **inevitably tied closely** to a company’s particular businesses
Putting Shared Value Into Practice

**Dow Chemical**

- Dow has a legacy of innovation to solve problems (“solutionism”)
- It recognized that global social issues represent huge market opportunities
- The “Breakthroughs to World Challenges” program was created
  - Each business unit is challenged to apply “solutionism” to a range of global problems inspired by the MDGs

**Example**

- Dow developed **Omega-9 canola and sunflower seeds** that produce cooking oil with no trans fats and low saturated fats
- The technology yields **twice the oil per hectare** for farmers than soybeans
- The oils have **longer** shelf life and usage life for food processors

- One of Dow’s biggest selling product lines with total revenues of approximately $700 million
Shared Value and Company Strategy
Whole Foods Markets

Value Proposition

• Natural, fresh, organic, and freshly prepared foods and health items with excellent service at premium prices
• Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
• Serve educated customers who are passionate about food and a healthy lifestyle

Distinctive Activities

• Well-lit, inviting supermarket store formats with appealing displays and extensive prepared foods sections
• Produce section as “theater”
• Café-style seating areas with wireless internet for meals and meetings
• Each store carries local produce and has the authority to contract with the local farmers. Company provides low-interest loans if needed
• Nutrition information and education provided to shoppers along with products
• High touch in-store customer service via knowledgeable, flexible, and highly motivated personnel
• Flat compensation structure
• Own seafood procurement and processing facilities to control quality, sustainability and price from the boat to the counter
• Heavy emphasis on environmental sustainability in all activities
• Emphasis on supporting community development

• Whole Foods is the most **economically successful** food retailer in North America
• Successful strategies in the future will embody a significant **shared value dimension**
### Purpose Based Strategic Positioning

<table>
<thead>
<tr>
<th>Traditional Positioning</th>
<th>New Positioning</th>
</tr>
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<tbody>
<tr>
<td>Nestlé • Food and Beverage Company</td>
<td>• Nutrition Company</td>
</tr>
<tr>
<td>Nike • Footwear and Apparel Company</td>
<td>• Health and Fitness Company</td>
</tr>
<tr>
<td>Thermo Fisher • Scientific and Laboratory Instruments Company</td>
<td>• Making the World Healthier, Cleaner, and Safer</td>
</tr>
</tbody>
</table>

- A **clear social purpose** opens up new opportunities for growth and profitability, while motivating and attracting consumers, business partners, employees, shareholders, and the public.
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

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