Regional Economic and Social Development: The New Learning
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.
Regional Economic and Social Development: The New Learning

1. Strategy for Economic Development

2. Enhancing Social Development

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

PPP-Adjusted GDP per Capita, 2012 ($USD)

Growth in Real GDP per Capita (PPP-adjusted), CAGR, 2002-2012

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

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

A nation or region 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
  - The productivity of existing firms and workers
  - Ability to achieve high participation of working age citizens in the workforce

- Competitiveness is **not**:
  - Low wages
  - Jobs per se
  - A weak currency
What Determines Competitiveness?

- Endowments, including **natural resources, geographical location, population, and land area**, 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 land area, create a foundation for prosperity, but true prosperity arises from productivity in the use of 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 land area**, create a **foundation** for prosperity, but true prosperity arises from **productivity in the use of endowments**.
Improving the Quality of the Business Environment

Context for Firm Strategy and Rivalry

Factor (Input) Conditions

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

- Local rules, incentives and competition that encourage investment and productivity
  - e.g. incentives for capital investments, IP protection, sound corporate governance standards, strict competition laws, openness to foreign competition

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

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.
Santander's Business Environment: Assessment

Factor (Input) Conditions

+ Geographical location
+ Good technology infrastructure
+ Access and quality of tertiary education
+ Supply of advanced degree holders: notably scientists and engineers
+ Internet use density
+ Administrative infrastructure (paying taxes, business formation)
  - Road and air transportation
  - Access to secondary education
  - Weak collaboration between the private sector and universities
  - Weak but improving innovation system
  - Mismatch in the labor force
  - Scarcie bilingual population
  - Low penetration of financial services
  - Limited access to venture capital

Related and Supporting Industries

+ Variety of clusters in the region
+ Strong institutions for collaboration
  - Low quality of suppliers

Context for Firm Strategy and Rivalry

+ Quality of life
+ High level of competition
  - High tax levels
  - High level of informality
  - Low level of foreign investment
  - Low firm internationalization

Demand Conditions

+ Growing middle class
+ Close to the Venezuelan border
  - Low sophistication of demand from the regional and local governments
  - Consumer demand not sophisticated or trend-setting

Based on assessment by the Center for Strategy and Competitiveness, Uniandes, “Santander Competitivo”
Developing Clusters
Tourism in Cairns, Australia

Public Relations & Market Research 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

Food Suppliers

Property Services

Maintenance Services

Public Relations & Market Research Services

Travel Agents

Tour Operators

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

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Sources: HBS student team research (2003) - Peter Tynan, Chai McConnell, Alexandra West, Jean Hayden
Clusters provide a framework for organizing the implementation of many public policies and public investments directed at economic development.
Clusters in Developing Economies

Some Principles

• Improving the general business environment is essential, but cluster development is necessary to attain middle-income levels

• Developing economies should upgrade traditional clusters (including agriculture), never abandon them

• Existing MNCs in the country should be treated as nodes for cluster development
  – The best way to retain companies is for them to be part of a cluster

• Attracting foreign direct investment should focus on existing and emerging clusters, not generalized appeals to locate in the country

• Free Trade or Export Processing Zones should be organized around clusters, with governing regulations designed to encourage linkages with the local economy

• A formal process for cluster development is an important component of economic development
  – Private sector led
  – Government roles in convening, supporting, and participating
  – Seed funding for cluster assessment and the formation of cluster-based IFCs
Relationship Among Clusters

Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.
Colombia’s Share of World Exports by Cluster, 2011

Note: Clusters with overlapping borders have at least 20% overlap (by number of industries) in both directions.
• Regions are the **most important economic unit for competitiveness** in larger countries, especially countries beyond subsistence development.
Prosperity Performance
Colombian Departments, 2010

Colombia Real Growth Rate of GDP per Capita: 3.09%

Note: GDP in constant 2005 Colombian Pesos ($); bubble size proportional to department population.
Source: Banco de la República.
Competitiveness Index Performance
Colombian Departments, 2010

Note: GDP in constant 2005 Colombian Pesos ($); bubble size proportional to department population.
Sources: Banco de la República, CEPAL.

Colombia GDP per Capita: $9,329,881
The Role of Regions in Economic Development

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

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- 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
What Determines Competitiveness?  
The Role of Social Factors

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
Regional 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 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**
The Social Progress Index Model

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?
Social Progress Index: 2013 Rankings

<table>
<thead>
<tr>
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<th>Country</th>
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<tr>
<td>1</td>
<td>Sweden</td>
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<td>Nigeria</td>
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<td>Ethiopia</td>
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Social Progress Index vs. GDP per Capita

![Graph showing the relationship between Social Progress Index and PPP-Adjusted GDP per Capita for various countries.](image-url)
Colombia’s Social Progress Scorecard
Overall Rank 21

<table>
<thead>
<tr>
<th>Basic Human Needs</th>
<th>Foundations of Wellbeing</th>
<th>Opportunity</th>
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<td>Nutrition and Basic Medical Care</td>
<td>Access to Basic Knowledge</td>
<td>Personal Rights</td>
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<td>Primary school enrollment</td>
<td>Freedom of speech</td>
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<td>Prevalence of tuberculosis</td>
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<td>Basic religious freedoms</td>
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<td>Outdoor air pollution attributable deaths</td>
<td>Internet users</td>
<td>Contraceptive prevalence rate</td>
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<td>Access to piped water</td>
<td>Fixed broadband subscriptions</td>
<td>Access to childcare</td>
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<td>Rural/urban access to improved water source</td>
<td>Press Freedom Index</td>
<td>Freedom over life choices</td>
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<td>Access to improved sanitation facilities</td>
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<td>Deaths from HIV</td>
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<th>Access to Higher Education</th>
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<td>Homicide rate</td>
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<td>Tertiary school enrollment</td>
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<td>Level of violent crime</td>
<td>CO2 emissions per capita</td>
<td>Female tertiary enrollment</td>
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<td>Perceived criminality</td>
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<td>Political terror</td>
<td>Water withdrawals per capita</td>
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Colombia GDP per capita rank is 27th among sample of 50 countries

*Safety net, tolerance and respect for minorities, women, and disadvantaged
Social Progress vs. Government Expenditure (% of GDP)

Government Expenditure Source: 2013 Index of Economic Freedom

Copyright 2013 © Professor Michael E. Porter
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 economic prosperity

• Societies are facing significant social and environmental challenges

• Business is facing growing scrutiny as the cause or a contributor to many of these challenges

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

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

We need a new approach
The Role of Business in Social and Economic Progress

Evolving Approaches

- Philanthropy
  - Donations to worthy social causes
  - Volunteering
The Role of Business in Social and Economic Progress

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 Social and Economic Progress

Evolving Approaches

- Philanthropy
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- 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
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 India and Africa
- 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
Shared Value in the Value Chain
Fibria, Brazil

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

- 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 plantation methods.

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

- 4000 households have significantly increased their income.
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**.
Creating Shared Value: Deciding Where to Concentrate

Opportunities to create shared value are inevitably tied closely to a company’s particular businesses.
### 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>
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<tbody>
<tr>
<td>Nestlé</td>
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<tr>
<td>• Food and Beverage Company</td>
<td>• Nutrition, Health and Wellness Company</td>
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<td>Thermo Fisher Scientific</td>
<td>Thermo Fisher Scientific</td>
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<td>• Scientific and Laboratory Instruments Company</td>
<td>• Making the World Healthier, Cleaner, and Safer</td>
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<td>Nike</td>
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<td>• Footwear and Apparel Company</td>
<td>• Health and Fitness Company</td>
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- 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