Economic and Social Development: The New Learning

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The Dual Challenges of Development

Economic Development

GDP per capita

Social Development
The Dual Challenges of Development

- 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 Performance
Selected Countries

Note: Luxembourg omitted from OECD average.

Source: EIU (2014), authors calculations

OECD Average Prosperity Growth: +1.3%
OECD Average Real GDP per Capita: $29,380
Economic Development Depends on 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 maintaining or improving wages and living standards for the average citizen.

- Competitiveness depends on the long-run productivity and efficiency of a location as a place to do business
  - The productivity of existing firms and workers
  - The ability to achieve high participation of citizens in the workforce

- Competitiveness is not:
  - Low wages
  - A weak currency
  - Jobs per se
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**.
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**
- 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**.
Geographic Influences on Competitiveness

- Regions are the **most important economic unit for competitiveness** in larger countries, especially countries beyond subsistence development.
Related Clusters and Economic Diversification

Fishing & Fishing Products
Agricultural Products
Transportation & Logistics
Hospitality & Tourism
Information Technology
Aerospace Vehicles & Defense
Analytical Instruments
Lighting & Electrical Equipment
Building Fixtures, Equipment & Services
Power Generation & Transmission
Furniture
Construction Materials
Wood Products
Heavy Construction Services
Heavy Machinery
Production Technology
Aerospace Engines
Automotive
Marine Equipment
Metal Manufacturing
Sporting, Recreational & Children’s Goods

Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.
The Need to Go Beyond GDP

• There has been a growing recognition that we need to move beyond measuring only the economic performance of countries:

“In an increasingly performance-oriented society, metrics matter. What we measure affects what we do. If we have the wrong metrics, we will strive for the wrong things”

Jean-Paul Fitoussi, Amartya Sen, Joseph Stiglitz, Mismeasuring Our Lives

• Starting with the Human Development Index, there have been a number of efforts to add additional measures

• More recently, there has also been a focus on life satisfaction/happiness

• The Social Progress Index builds on these efforts to broaden measurement of national performance to social factors
Social Progress Index: Design Principles

- Exclusively social and environmental indicators
- Outcomes – not inputs
- Relevant to all countries
- Actionability
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.

A holistic framework is needed
Social Progress Index Model 2014

Social Progress Index

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

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

Opportunity
- Personal Rights
- Personal Freedom and Choice
- Tolerance and Inclusion
- Access to Advanced Education

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

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

Is there opportunity for all individuals to reach their full potential?
<table>
<thead>
<tr>
<th>Rank</th>
<th>Score</th>
<th>Country</th>
<th>GDP per Capita*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>88.24</td>
<td>New Zealand</td>
<td>$32,560</td>
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<td>2</td>
<td>88.19</td>
<td>Switzerland</td>
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<td>3</td>
<td>88.07</td>
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<td>$38,553</td>
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<td>4</td>
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<td>Netherlands</td>
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<td>5</td>
<td>87.12</td>
<td>Norway</td>
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<td>87.08</td>
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<td>7</td>
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<td>Canada</td>
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<td>8</td>
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<td>Finland</td>
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<td>10</td>
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<td>Germany</td>
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<td>33</td>
<td>73.76</td>
<td>Lithuania</td>
<td>$23,554</td>
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Note: *GDP per capita 2011 (Constant, 2011 International $)
Social Progress Index vs. GDP per Capita (PPP)*

* (constant 2011 international $)
• India is currently **underperforming** on Social Progress relative to its level of economic development.
### BASIC HUMAN NEEDS

<table>
<thead>
<tr>
<th>Category</th>
<th>Score</th>
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<tbody>
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<td>Nutrition and Basic Medical Care</td>
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<tr>
<td>Undernourishment</td>
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<tr>
<td>Depth of food deficit</td>
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<td>97</td>
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<tr>
<td>Maternal mortality rate</td>
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<td>94</td>
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<tr>
<td>Stillbirth rate</td>
<td>22</td>
<td>100</td>
</tr>
<tr>
<td>Child mortality rate</td>
<td>56</td>
<td>101</td>
</tr>
<tr>
<td>Deaths from infectious diseases</td>
<td>383</td>
<td>97</td>
</tr>
<tr>
<td>Water and Sanitation</td>
<td>51.85</td>
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<tr>
<td>Access to piped water</td>
<td>25</td>
<td>97</td>
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<tr>
<td>Rural vs. urban access to improved water source</td>
<td>6.8</td>
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<tr>
<td>Access to improved sanitation facilities</td>
<td>35.1</td>
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<tr>
<td>Shelter</td>
<td>39.77</td>
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<tr>
<td>Availability of affordable housing</td>
<td>47</td>
<td>57</td>
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<tr>
<td>Access to electricity</td>
<td>75.0</td>
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<tr>
<td>Quality of electricity supply</td>
<td>3.2</td>
<td>90</td>
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<td>Indoor air pollution attributable deaths</td>
<td>124.5</td>
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<td>Personal Safety</td>
<td>50.64</td>
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### FOUNDATIONS OF WELLBEING

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<th>Category</th>
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<td>Access to Basic Knowledge</td>
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<td>Access to Information and Communications</td>
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<td>Health and Wellness</td>
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<tr>
<td>Ecosystem Sustainability</td>
<td>40.72</td>
<td>100</td>
</tr>
</tbody>
</table>

#### Health and Wellness

- Life expectancy: 66.0 (98)
- Non-communicable disease deaths between 30 and 70: 27.0 (90)
- Obesity rate: 1.9 (4)
- Outdoor air pollution attributable deaths: 14.0 (71)
- Suicide rate: 25.2 (126)

#### Ecosystem Sustainability

- Greenhouse gas emissions: 618.1 (2)
- Water withdrawals as a percent of resources: 3.6 (113)
- Biodiversity and habitat: 39.2 (99)

### OPPORTUNITY

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<tr>
<th>Category</th>
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<td>Personal Freedom and Choice</td>
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<td>Tolerance and Inclusion</td>
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<td>131</td>
</tr>
<tr>
<td>Access to Advanced Education</td>
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<td>91</td>
</tr>
</tbody>
</table>

#### Personal Rights

- Political rights: 2.0 (37)
- Freedom of speech: 1.0 (14)
- Freedom of assembly/association: 0.0 (95)
- Freedom of movement: 3.0 (67)
- Private property rights: 50.0 (36)

#### Personal Freedom and Choice

- Freedom over life choices: 57.0 (99)
- Freedom of religion: 2.0 (93)
- Modern slavery, human trafficking, child marriage: 30.8 (130)
- Satisfied demand for contraception: 80.0 (75)
- Corruption: 36.0 (74)

#### Tolerance and Inclusion

- Women treated with respect: 61.0 (68)
- Tolerance for immigrants: 30.0 (126)
- Tolerance for homosexuals: 11.0 (85)
- Discrimination and violence against minorities: 8.2 (112)
- Religious tolerance: 1.0 (118)
- Community safety net: 51.0 (129)

#### Access to Advanced Education

- Years of tertiary schooling: 0.2 (80)
- Women's average years in school: 5.6 (104)
- Inequality in the attainment of education: 0.4 (103)
- Number of globally ranked universities: 3.0 (12)

**Note:** Strengths and weaknesses are relative to 15 countries of similar GDP; Uzbekistan; Nigeria; Congo, Republic of; Bolivia; Honduras; Laos; Pakistan; Nicaragua; Swaziland; Moldova; Philippines; Guyana; Yemen; Ghana; and Georgia.
The Role of Business in Society

• Only business can **create economic prosperity**, through meeting needs at a profit

• Societies everywhere are facing significant **social, environmental and economic development** challenges

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

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

We need a **new approach**
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” initiatives
- Mitigating risk and harm
- Improving trust and reputation

Creating Shared Value (CSV)
- Addressing societal needs and challenges with a business model
  - While making a profit
Levels of Shared Value

I. Reconceiving needs, products, and customers
   – Meeting societal needs through products and services
   – Serving unserved or underserved customers

II. Redefining productivity in the value chain
   – Utilizing resources, energy, suppliers, logistics, and employees differently and better

III. Improving the local and regional business environment
   – Improving skills, the supplier base, the regulatory environment, and the supporting institutions that affect the business
   – Strengthening the cluster on which the company depends
   – Improving consumer education and local infrastructure

• Shared value strengthens the link between company success and community success
Shared Value in Products
Dow Chemical

• Dow recognized that global social issues represent its **largest market opportunities**

• Created the “**Breakthroughs to World Challenges**” Program
  – Each business unit was challenged to apply Dow’s tradition of “solutionism” through innovation to a **range of global problems** inspired by the Millennium Development Goals

• One of Dow’s business units 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, raising farmer and farmland productivity

• The oils have longer **shelf life** and **usage life** for food processors

• Has become one of Dow’s largest selling product lines, with 2012 total revenues of approximately **$700 million**
Shared Value in the Value Chain
Fibria, Brazil

• Fibria, the world’s leading manufacturer of chemical pulp, utilizes planted eucalyptus trees and integration of native habitat to **dramatically reduce the land required** and sustainability in wood fiber cultivation

• 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 traditional plantation methods

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

• Over **4000 households** have significantly increased employment and incomes
Shared Value Through Cluster Development

ITO EN, Japanese Tea Cluster

• ITO EN is the world's leading producer and marketer of loose leaf and bottled green tea. The company sources 100% locally-grown green tea leaves.

• ITO EN partners with farmers, government and other stakeholders to establish small and large scale plantations using abandoned agricultural land.

• The company purchases entire crops produced through this program, lowering sales costs.

• The company provides assistance in modern farm management practices and technology, working with growers to raise tea quality to meet ITO EN standards.

• The program motivates and trains young people to take over tea growing when older farmers retire.

• Farmer incomes have risen due to increased quality and efficiency.

• Land abandoned by retiring farmers has been restored to production, creating jobs and assuring cluster sustainability by attracting young people.

• Tea volume has expanded by 13% to date, providing ITO EN with adequate volume, consistent quality, and reduced production costs.
Creating Shared Value: Where is the Opportunity?

Nestlé

- Opportunities to create shared value are *inevitably tied closely* to a company’s particular businesses
The Purpose of Business

• The purpose in business is to create economic value while creating shared value for society.

• 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 strategy and economic value creation and 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.