Global Competitiveness: Implications for Kenya

Professor Michael E. Porter
Institute for Strategy and Competitiveness
Harvard Business School
Strathmore Business School, Nairobi, Kenya
25 June 2007

The Changing International Competition Across Locations

Drivers
- Fewer barriers to trade and investment
- Rapidly increasing stock and diffusion of knowledge
- Competitiveness upgrading in many countries

Market reaction
- Globalization of markets
- Globalization of capital investment
- Globalization of value chains
- Increasing knowledge and skill intensity of competition
- Value migrating to the service component of the value chain

- Microeconomic competitiveness is increasingly important to succeed in the global economy
Prosperity Performance
Selected Countries

Real PPP-adjusted GDP per Capita, 2006

Growth of Real GDP per Capita (PPP-adjusted), CAGR, 1998-2006

Source: EIU (2007)
Comparative Economic Performance
Real GDP Growth Rates

Source: EIU (2007)
The Kenyan Economy in 2007

- Economic growth rates have been **strong** since 2004
- Parts of the economy that have been **opened up** (airlines, telecom) have performed well
- Areas where Kenya has built **clusters**, e.g. cut flowers, have done well

**However**

- The **global economic environment** has been favorable
- Kenya’s Growth rates have **not been exceptional** relative to the Sub-Saharan average
- Overall prosperity in Kenya remains very **low**
- Success has been **uneven**; many Kenyan citizens and businesses are not participating

- Kenya must dramatically **improve its competitiveness** to enhance the nation’s standard of living
What is Competitiveness?

• Competitiveness is determined by the productivity (value per unit of input) with which a nation uses its human, capital, and natural resources.
  – Productivity sets the standard of living (wages, returns on capital, returns on natural resources) that a nation can sustain
  – Productivity depends not just on efficiency but also on the prices that a nation’s products and services command (e.g. uniqueness, quality)
  – It is not what industries a nation competes in that matters for prosperity, but how firms compete in those industries
  – Productivity requires a combination of domestic and foreign firms operating in the nation. Who owns a company is secondary for the level of prosperity
  – The productivity of “local” or domestic industries is fundamental to competitiveness, not just that of traded industries
  – Devaluation does not make a country more competitive

• Only business can create wealth
• Nations compete in offering the most productive environment for business
• The public and private sectors play different but interrelated roles in creating a productive economy
Decomposing Prosperity

Prosperity
- Standard of living
- Inequality

Domestic Purchasing Power
- Consumption taxes
- Local prices
  - Efficiency of local industries
  - Level of local market competition

Per Capita Income
- Skills
- Capital stock
- Total factor productivity

Labor Productivity
- Working hours
- Unemployment
- Workforce participation rate
  - Population age profile

Labor Utilization
- Efficiency of local industries
- Level of local market competition
Domestic Purchasing Power

Normalized Purchasing Power Across Countries

Purchasing Power Factor, 2006, (USD = 1)

Higher Cost of Living

Lower Cost of Living

Source: IMF (2007), authors’ calculations
Enablers and Indicators of Competitiveness

Productivity

World Export Market Share
Inbound Foreign Direct Investment
Outbound Foreign Direct Investment
Domestic Investment
Domestic Innovation

Competitiveness Environment
Kenya Export Share Trends

Note: Services export data not available for 2005.
Source: WTO (2007)
Foreign Inward Investment Stocks and Flows
Selected Countries

FDI Stocks as % of GDP, Average 2002 - 2005

FDI Inflows as % of Gross Fixed Capital Formation, Average 2002 - 2005

Source: UNCTAD (2007)
Investment Rates
Selected Countries

Gross Fixed Investment as % of GDP

Sorted by 2006 Share
- China
- Senegal
- Ghana
- India
- Zambia
- Namibia
- Nigeria
- The Gambia
- Uganda
- Mozambique
- Ethiopia
- Kenya
- Tanzania
- Botswana
- South Africa
- Russia
- Brazil
- Zimbabwe

International Patenting Output
Selected Countries

Annual U.S. patents per 1 million population, 2005


Source: USPTO, 2006
Determinants of Competitiveness

Macroeconomic, Political, Legal, and Social Context

Microeconomic Competitiveness

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

• A sound context creates the potential for competitiveness, but is not sufficient
• Competitiveness ultimately depends on improving the microeconomic capability of the economy and the sophistication of local competition
### Macroeconomic, Political, Legal, and Social Context

<table>
<thead>
<tr>
<th>Macroeconomic policies</th>
<th>Political governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Sound fiscal and monetary policies</strong> create stability and encourage business investment and upgrading&lt;br&gt;• <strong>Sound macroeconomic conditions</strong> allow market prices to provide accurate signals for economic decisions</td>
<td>• <strong>Due process in political decisions</strong> and <strong>orderly transfers of power</strong> create a stable planning horizon for business&lt;br&gt;• <strong>Checks and balances</strong> in the political system mitigate instability and the abuse of power</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Legal system</th>
<th>Social conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• An <strong>independent, timely, effective and trusted legal system</strong> upholds the rule of law and enables a <strong>fair environment for business</strong> transactions, encouraging investment&lt;br&gt;• Unwillingness to tolerate <strong>corruption</strong> encourages productivity</td>
<td>• <strong>Improving social conditions</strong> in basic education, housing, health, and absence of discrimination support more productivity&lt;br&gt;• A <strong>functioning social safety net</strong> gives citizens confidence to accept and deal with change&lt;br&gt;• <strong>Improvements of social conditions</strong> signal the benefits of reforms and <strong>increase the political support</strong> for policies to enhance competitiveness</td>
</tr>
</tbody>
</table>
Governance Indicators
Selected Countries

Note: Sorted left to right by decreasing average value across all indicators. The ‘zero’ horizontal line corresponds to the median country’s average value across all indicators.
Corruption Perception Index

Note: Ranks only countries available in both years, other African countries in blue
Source: Global Corruption Report, 2006
Determinants of Competitiveness

Macroeconomic, Political, Legal, and Social Context

Microeconomic Competitiveness

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

- Differentiation (Higher Price)
- Competitive Advantage
- Lower Cost
• Competing in a business involves performing a set of discrete activities, in which competitive advantage resides.
Operational Effectiveness is Not Strategy

- Assimilating, attaining, and extending best practices
- Run the same race faster

- Creating a unique and sustainable competitive position
- Choose to run a different race
### Common Strategy Errors in African Companies

<table>
<thead>
<tr>
<th>Opportunistic</th>
<th>vs.</th>
<th>Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term</td>
<td></td>
<td>Medium and long-term</td>
</tr>
<tr>
<td>Fast pay-back</td>
<td></td>
<td>Build a competitive advantage</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operational improvement</th>
<th>vs.</th>
<th>Strategic positioning</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Imitation</th>
<th>vs.</th>
<th>Define a unique value proposition</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Low price</th>
<th>vs.</th>
<th>Lower cost or differentiation</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Local, broad line</th>
<th>vs.</th>
<th>Focused, regional</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Many unrelated businesses</th>
<th>vs.</th>
<th>Group of interrelated businesses</th>
</tr>
</thead>
</table>
Strategic Positioning
Pollo Campero, Guatemala

Value Proposition

• Low cost fast food chicken tailored to the tastes and preferences of the Central American customer

Set of Activities

• Service with a “human touch,” including some table service
• Heavy and distinctive marketing and promotion
  – “An affordable treat for the whole family”
  – Frequent gimmicks and promotions, targeting every member of the family
  – Strong civic pride and social awareness
• Emphasize high productivity in the labor force through incentives, education, and training
• Engineering department studies motion to improve restaurant efficiency
• Company-owned chicken farms to ensure high quality product

• The low cost strategy expands the market
• Pollo Campero competes effectively against U.S. fast food companies in Central America through better understanding of local customer needs
• Pollo Campero is penetrating the Latino segment in the U.S. West Coast

Kenyan Company Operations and Strategy
Selected Strengths And Weaknesses, 2006

<table>
<thead>
<tr>
<th>Competitive Advantages</th>
<th>Competitive Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extent of regional sales</td>
<td>Production process sophistication</td>
</tr>
<tr>
<td>Degree of customer orientation</td>
<td>Extent of incentive compensation</td>
</tr>
<tr>
<td>Reliance on professional management</td>
<td>Control of international distribution</td>
</tr>
<tr>
<td>Extent of staff training</td>
<td>Willingness to delegate authority</td>
</tr>
<tr>
<td>Breadth of international markets</td>
<td></td>
</tr>
<tr>
<td>Nature of competitive advantage</td>
<td></td>
</tr>
<tr>
<td>Presence across the value chain</td>
<td></td>
</tr>
<tr>
<td>Extent of marketing</td>
<td></td>
</tr>
</tbody>
</table>

Country Ranking, Arrows indicate a change of 5 or more ranks since 2003

Note: Rank versus 121 countries; overall, Kenya ranks 110th in 2005 PPP adjusted GDP per capita and 68th in Business Competitiveness.
Business Competitiveness Index
Kenya’s Position over Time

Note: Values prior to 2006 may differ from historical published values, as the rankings have been adjusted to include a constant sample of countries over time.
Source: Global Competitiveness Report 2006
Determinants of Competitiveness

Macroeconomic, Political, Legal, and Social Context

Microeconomic Competitiveness

Sophistication of Company Operations and Strategy

Quality of the Business Environment

State of Cluster Development
Improving the Business Environment: The Diamond

**Context for Firm Strategy and Rivalry**
- A local context and rules that encourage **investment** and **productivity**
  - e.g., Intellectual property protection
- **Meritocratic** incentive systems in businesses and other institutions
- Open and vigorous local competition
  - e.g., Anti-monopoly laws, openness to imports

**Factor (Input) Conditions**
- Presence of high quality, specialized inputs available to firms
  - Human resources
  - Capital resources
  - Physical infrastructure
  - Administrative infrastructure
  - Information infrastructure
  - Scientific and technological infrastructure
  - Natural resources

**Demand Conditions**
- Local demand with improving sophistication
- Local customer needs that anticipate those elsewhere
- Unusual local demand in specialized segments that can be served nationally and globally
- Access to capable, locally based suppliers and firms in related fields

---

Successful economic development is a process of **successive upgrading**, in which the business environment improves to enable increasingly sophisticated ways of competing.
## Kenyan Factor (Input) Conditions
### Selected Strengths and Weaknesses, 2006

<table>
<thead>
<tr>
<th>Competitive Advantages Relative to GDP per Capita</th>
<th>Competitive Disadvantages Relative to GDP per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air transport infrastructure quality 44 ⬆</td>
<td>Telephone/fax infrastructure quality 114</td>
</tr>
<tr>
<td>Ease of access to loans 56 ⬆</td>
<td>Overall infrastructure quality 101</td>
</tr>
<tr>
<td>Availability of scientists and engineers 57</td>
<td>Quality of electricity supply 94</td>
</tr>
<tr>
<td>Venture capital availability 63 ⬆</td>
<td>Efficiency of legal system for business 88</td>
</tr>
<tr>
<td>Quality of management schools 67 ⬆</td>
<td>Judicial independence 85</td>
</tr>
<tr>
<td>Financial market sophistication 67 ⬆</td>
<td>Quality of public schools 85 ⬆</td>
</tr>
<tr>
<td>Port infrastructure quality 70 ⬆</td>
<td>Reliability of police services 82 ⬆</td>
</tr>
<tr>
<td>Quality of math and science education 80</td>
<td>Quality of math and science education 80</td>
</tr>
<tr>
<td>Railroad infrastructure development 80</td>
<td>Railroad infrastructure development 80</td>
</tr>
</tbody>
</table>

Note: Rank versus 121 countries; overall, Kenya ranks 110th in 2005 PPP adjusted GDP per capita and 68th in Business Competitiveness.

Kenyan Context for Strategy and Rivalry
Selected Strengths And Weaknesses, 2006

**Competitive Advantages Relative to GDP per Capita**

- Effectiveness of antitrust policy: 49

**Competitive Disadvantages Relative to GDP per Capita**

- Business costs of corruption: 108
- Prevalence of trade barriers: 110
- Strong centralization of economic policymaking: 94
- Cooperation in labor-employer relations: 93
- Favoritism in decisions of government officials: 92
- Extent of dominance by large business groups: 80
- Intellectual property protection: 77

Country Ranking, Arrows indicate a change of 5 or more ranks since 2003.

Note: Rank versus 121 countries; overall, Kenya ranks 110th in 2005 PPP adjusted GDP per capita and 68th in Business Competitiveness.

## Kenyan Related and Supporting Industries

### Selected Strengths And Weaknesses, 2006

<table>
<thead>
<tr>
<th>Competitive Advantages Relative to GDP per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local supplier quality</td>
</tr>
<tr>
<td>Local availability of process machinery</td>
</tr>
</tbody>
</table>

**Country Ranking, Arrows indicate a change of 5 or more ranks since 2003**

Note: Rank versus 121 countries; overall, Kenya ranks 110\textsuperscript{th} in 2005 PPP adjusted GDP per capita and 68\textsuperscript{th} in Business Competitiveness. Source: Global Competitiveness Report 2006-2007.
Size of the Informal Economy
Selected Countries

% of GDP in the Informal Economy, 2006

Ease of Doing Business
Kenya

Ranking, 2006 (of 175 countries)

Favorable

Unfavorable

Median Ranking, Sub-Saharan Africa

Kenya’s GNI per capita rank: 112

Determinants of Competitiveness

Macroeconomic, Political, Legal, and Social Context

Microeconomic Competitiveness

- Sophistication of Company Operations and Strategy
- Quality of the Business Environment

State of Cluster Development
Enhancing Cluster Development
Tourism Cluster in Cairns, Australia

- Travel agents
- Tour operators
- Restaurants
- Attractions and Activities
  e.g., theme parks, casinos, sports
- Hotels
- Airlines, Cruise Ships
- Local retail, health care, and other services
- Local Transportation
- Souvenirs, Duty Free
- Banks, Foreign Exchange
- Public Relations & Market Research Services
- Food Suppliers
- Property Services
- Maintenance Services
- 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
Enhancing Cluster Development

California Wine Cluster

- Grapestock
- Fertilizer, Pesticides, Herbicides
- Grape Harvesting Equipment
- Irrigation Technology
- Growers/Vineyards
- Winemaking Equipment
- Barrels
- Bottles
- Caps and Corks
- Labels
- Public Relations and Advertising
- Specialized Publications (e.g., Wine Spectator, Trade Journal)
- Wineries/Processing Facilities
- Educational, Research, & Trade Organizations (e.g., Wine Institute, UC Davis, Culinary Institutes)
- Tourism Cluster
- Food Cluster
- State Government Agencies (e.g., Select Committee on Wine Production and Economy)
- California Agricultural Cluster

Sources: California Wine Institute, Internet search, California State Legislature. Based on research by MBA 1997 students R. Alexander, R. Arney, N. Black, E. Frost, and A. Shivananda.
The Evolution of Economies
San Diego

- Climate and Geography
- U.S. Military
- Bioscience Research Centers
- Hospitality and Tourism
- Transportation and Logistics
- Power Generation
- Aerospace Vehicles and Defense
- Communications Equipment
- Analytical Instruments
- Education and Knowledge Creation
- Information Technology
- Medical Devices
- Biotech / Pharmaceuticals

Timeline:
- 1910
- 1930
- 1950
- 1970
- 1990
The Australian Wine Cluster
Trade Performance

Australian Wine Exports in thousand US $

Australian Wine World Export Market Share

The Australian Wine Cluster

Time Line

1930
First oenology course at Roseworthy Agricultural College

1955
Australian Wine Research Institute founded

1950s
Import of European winery technology

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

1965
Australian Wine Bureau established

1970
Winemaking school at Charles Sturt University founded

1970s
Continued inflow of foreign capital and management

1980
Australian Wine and Brandy Corporation established

1980s
Creation of large number of new wineries

1990
Winemaker’s Federation of Australia established

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

1990s
Surge in exports and international acquisitions

## The Australian Wine Cluster

Recently founded Institutions for Collaboration

<table>
<thead>
<tr>
<th>Institution</th>
<th>Established Year</th>
<th>Focus</th>
<th>Funding Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Winemakers’ Federation of Australia</strong></td>
<td>1990</td>
<td>Public policy representation of companies in the wine cluster</td>
<td>Member companies</td>
</tr>
<tr>
<td><strong>Cooperative Centre for Viticulture</strong></td>
<td>1991</td>
<td>Coordination of research and education policy in viticulture</td>
<td>Other cluster organizations</td>
</tr>
<tr>
<td><strong>Australian Wine Export Council</strong></td>
<td>1992</td>
<td>Wine export promotion through international offices in London and San Francisco</td>
<td>Government; cluster organizations</td>
</tr>
<tr>
<td><strong>Grape and Wine R&amp;D Corporation</strong></td>
<td>1991</td>
<td>Funding of research and development activities</td>
<td>Government; statutory levy</td>
</tr>
<tr>
<td><strong>Wine Industry Information Service</strong></td>
<td>1998</td>
<td>Information collection, organization, and dissemination</td>
<td>Cluster organizations</td>
</tr>
<tr>
<td><strong>Wine Industry National Education and Training Council</strong></td>
<td>1995</td>
<td>Coordination, integration, and standard maintenance for vocational training and education</td>
<td>Government; other cluster organizations</td>
</tr>
</tbody>
</table>

Kenya Cluster Portfolio Measured by Exports
Goods and Services Exports, 1997-2004

Kenya’s world export market share, 2004

Change in Kenya’s overall world export share: -0.016%

Kenya’s average world export share: 0.03%

Exports of $200 Million =

Kenya Cluster Portfolio Measured by Exports
Goods and Services Exports, 1997-2004

Kenya’s Competitive Subclusters Based on Export Share Goods, 1997-2004

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Subcluster</th>
<th>Export Value ($000)</th>
<th>Share</th>
<th>Share Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agricultural Products</strong></td>
<td>Plants and Flowers</td>
<td>$273,335</td>
<td>2.09%</td>
<td>1.04%</td>
</tr>
<tr>
<td></td>
<td>Coffee, Tea, Cocoa and Spices</td>
<td>$559,527</td>
<td>1.87%</td>
<td>-0.76%</td>
</tr>
<tr>
<td></td>
<td>Miscellaneous Vegetable Materials</td>
<td>$1,714</td>
<td>0.61%</td>
<td>-0.27%</td>
</tr>
<tr>
<td></td>
<td>Vegetables and Fruits</td>
<td>$289,959</td>
<td>0.27%</td>
<td>0.05%</td>
</tr>
<tr>
<td></td>
<td>Oils and Fats</td>
<td>$36,338</td>
<td>0.06%</td>
<td>-0.04%</td>
</tr>
<tr>
<td></td>
<td>Specialty Agricultural Products</td>
<td>$2,408</td>
<td>0.05%</td>
<td>-0.05%</td>
</tr>
<tr>
<td><strong>Chemical Products</strong></td>
<td>Miscellaneous Crude Materials</td>
<td>$88,907</td>
<td>1.49%</td>
<td>0.58%</td>
</tr>
<tr>
<td></td>
<td>Packaged Chemicals</td>
<td>$32,612</td>
<td>0.11%</td>
<td>-0.15%</td>
</tr>
<tr>
<td></td>
<td>Pesticide and Other Agricultural Chemicals</td>
<td>$5,358</td>
<td>0.03%</td>
<td>-0.06%</td>
</tr>
<tr>
<td><strong>Construction Materials</strong></td>
<td>Cements</td>
<td>$28,439</td>
<td>0.31%</td>
<td>-0.33%</td>
</tr>
<tr>
<td></td>
<td>Crushed Stone, Sand and Lime</td>
<td>$2,526</td>
<td>0.07%</td>
<td>-0.06%</td>
</tr>
<tr>
<td><strong>Fishing and Fishing Products</strong></td>
<td>Fishing</td>
<td>$52,629</td>
<td>0.08%</td>
<td>-0.04%</td>
</tr>
<tr>
<td><strong>Footwear</strong></td>
<td>Footwear</td>
<td>$19,240</td>
<td>0.05%</td>
<td>-0.01%</td>
</tr>
<tr>
<td><strong>Metal Mining and Manufacturing</strong></td>
<td>Iron and Steel Mill and Foundry Products</td>
<td>$93,929</td>
<td>0.04%</td>
<td>-0.04%</td>
</tr>
<tr>
<td><strong>Prefabricated Enclosures and Structures</strong></td>
<td>Recreational Vehicles and Parts</td>
<td>$801.40</td>
<td>0.06%</td>
<td>-0.02%</td>
</tr>
<tr>
<td></td>
<td>Aluminum Forgings and Other Processing</td>
<td>$13,379.23</td>
<td>0.05%</td>
<td>0.00%</td>
</tr>
<tr>
<td></td>
<td>Trucks and Trailers</td>
<td>$3,595</td>
<td>0.05%</td>
<td>0.04%</td>
</tr>
<tr>
<td><strong>Processed Food</strong></td>
<td>Candy and Chocolate</td>
<td>$32,164</td>
<td>0.17%</td>
<td>0.05%</td>
</tr>
<tr>
<td></td>
<td>Paper Containers and Boxes</td>
<td>$15,851</td>
<td>0.13%</td>
<td>0.02%</td>
</tr>
<tr>
<td></td>
<td>Metal and Glass Containers</td>
<td>$9,744.10</td>
<td>0.08%</td>
<td>-0.01%</td>
</tr>
<tr>
<td></td>
<td>Specialty Foods and Ingredients</td>
<td>$35,794</td>
<td>0.07%</td>
<td>-0.13%</td>
</tr>
<tr>
<td><strong>Publishing and Printing</strong></td>
<td>Paper Products</td>
<td>$5,890</td>
<td>0.15%</td>
<td>-0.04%</td>
</tr>
<tr>
<td></td>
<td>Office Supplies</td>
<td>$5,664</td>
<td>0.11%</td>
<td>-0.02%</td>
</tr>
<tr>
<td></td>
<td>Signs and Advertising Specialties</td>
<td>$316</td>
<td>0.05%</td>
<td>0.01%</td>
</tr>
<tr>
<td><strong>Tobacco</strong></td>
<td>Cigarettes</td>
<td>$39,464</td>
<td>0.17%</td>
<td>0.05%</td>
</tr>
</tbody>
</table>

The Kenyan Cut Flower Cluster
Trade Performance

Kenyan Cut Flower
Exports in thousand US $

Kenyan Cut Flower
World Export Market Share

Kenya’s Cut Flower Cluster

Government Agencies, NGOs & Industry Associations
- Horticultural Crops Development Authority (HCDA)
  Government Export Policies targeting Horticulture
  Government Policy for Revitalizing Agriculture; National Export Strategy; Export Promotion Council (EPC)
- Non-Governmental Organizations
  The Rural Enterprise Agri-Business Promotion Project (USAID, CARE, IFAD)
  Horticultural Produce Handling Facilities Project (JBIIC)
- Trade & Industry Associations
  Kenya Flower Council (KFC)
  Fresh Produce Exporters Association of Kenya (FPEAK)
  Regional Growers Associations e.g., North & South Kenagop; Lake Naivasha, etc.

Flower Farming → Post-Harvest Handling; Transport to Market

Education, Research & Quality Standards Organizations
- Research Institutions:
  Kenya Agricultural Research Institute (KARI)
  International Center for Insect Physiology and Ecology (ICIPE)
- Public universities with post graduate degrees in horticulture:
  University of Nairobi; Jomo Kenyatta University of Agriculture & Technology
- Quality & Standards:
  EUREGAP Standard (UK & Dutch Supermarkets)
  Kenya Plant Health Inspectorate Services (KEPHIS)

Sources: HBS student team research (2007) - Kusi Hornberger, Nick Ndiritu, Lalo Ponce-Brito, Melesse Tashu, Tijan Watt
Geographic Influences on Competitiveness

Levels of Influence

- World Economy
- Broad Economic Areas
- Groups of Neighboring Nations
  - “The Neighborhood”
- Nations
- States, Provinces
  - (Regional Economies)
- Metropolitan Areas
- Rural Areas
# The Composition of Regional Economies
## United States, 2004

<table>
<thead>
<tr>
<th></th>
<th>Traded</th>
<th>Local</th>
<th>Natural Resource-Driven</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Share of Employment</strong></td>
<td>29.3%</td>
<td>70.0%</td>
<td>0.7%</td>
</tr>
<tr>
<td><strong>Employment Growth Rate, 1990 to 2004</strong></td>
<td>0.7%</td>
<td>2.4%</td>
<td>-1.2%</td>
</tr>
<tr>
<td><strong>Average Wage</strong></td>
<td>$49,367</td>
<td>$30,416</td>
<td>$35,815</td>
</tr>
<tr>
<td><strong>Relative Wage</strong></td>
<td>137.2%</td>
<td>84.5</td>
<td>99.5</td>
</tr>
<tr>
<td><strong>Wage Growth</strong></td>
<td>4.2%</td>
<td>3.4%</td>
<td>2.1%</td>
</tr>
<tr>
<td><strong>Relative Productivity</strong></td>
<td>144.1</td>
<td>79.3</td>
<td>140.1</td>
</tr>
<tr>
<td><strong>Patents per 10,000 Employees</strong></td>
<td>23.0</td>
<td>0.4</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Number of SIC Industries</strong></td>
<td>590</td>
<td>241</td>
<td>48</td>
</tr>
</tbody>
</table>

Note: 2004 data, except relative productivity which uses 1997 data.
Specialization of Regional Economies
Select U.S. Geographic Areas

Note: Clusters listed are the three highest ranking clusters in terms of share of national employment
Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School
Kenya’s Role in the Neighborhood
Cross-National Economic Coordination
Illustrative Policy Areas

<table>
<thead>
<tr>
<th>Factor (Input) Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Improve regional transportation infrastructure</td>
</tr>
<tr>
<td>• Create an efficient energy network</td>
</tr>
<tr>
<td>• Upgrade/link regional communications</td>
</tr>
<tr>
<td>• Upgrade/link financial markets</td>
</tr>
<tr>
<td>• Upgrade higher education through facilitating specialization and student exchanges</td>
</tr>
<tr>
<td>• Expand cross-border business and financial information access and sharing</td>
</tr>
<tr>
<td>• Coordinate activities to ensure personal safety</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Context for Strategy and Rivalry</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Coordinate macroeconomic policies</td>
</tr>
<tr>
<td>• Eliminate trade and investment barriers within the region</td>
</tr>
<tr>
<td>• Simplify cross-border regulations and paperwork</td>
</tr>
<tr>
<td>• Guarantee minimum basic investor protections</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Demand Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Agree on foreign investment promotion guidelines to limit forms of investment promotion that do not enhance productivity</td>
</tr>
<tr>
<td>• Coordinated competition policy</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Related and Supporting Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Set minimum environmental standards</td>
</tr>
<tr>
<td>• Set minimum safety standards</td>
</tr>
<tr>
<td>• Establish reciprocal consumer protection laws</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Regional Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Share best practices in government operations</td>
</tr>
<tr>
<td>• Improve regional institutions</td>
</tr>
<tr>
<td>• Establish ongoing upgrading process in clusters that cross national borders, e.g.</td>
</tr>
<tr>
<td>– Tourism</td>
</tr>
<tr>
<td>– Agribusiness</td>
</tr>
<tr>
<td>– Transport &amp; Logistics</td>
</tr>
<tr>
<td>– Business services</td>
</tr>
<tr>
<td>• Develop a regional marketing strategy</td>
</tr>
</tbody>
</table>
Variation in BCI score explains more than 80% of variation in GDP per capita.
Medium-Term Dynamism in Competitiveness

The Process of Economic Development
Shifting Roles and Responsibilities

**Old Model**

- **Government** drives economic development through policy decisions and incentives

**New Model**

- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and institutions for collaboration

- Competitiveness must become a **bottom-up process** in which many individuals, companies, clusters, and institutions take responsibility
- **Every** region and cluster can take steps to enhance competitiveness
- Successful competitiveness efforts set clear **priorities** reflecting the specific barriers companies face
Integrating Economic and Social Policy

- In the new thinking on competition, there is not an inherent conflict between economic and social objectives, but a long term synergy.

- The competitiveness of companies depends heavily on
  - Rising skill levels
  - Safe working conditions
  - A sense of equal opportunity
  - Low levels of pollution (pollution is a sign of unproductive use of physical resources)

- However, efforts to meet “social” objectives must be aligned with productivity and prepare and motivate individuals to succeed in the market system.

- Efforts to meet “economic” objectives must include explicit programs to raise human capability, improve the lives and sense of opportunity for individuals, and enhance the broader business environment.
Integrating Economic and Social Policy

Examples

Training

• Organize training investments around clusters

Housing

• Create mechanisms to encourage home ownership; provide incentives for new company formation in the construction cluster; reduce unnecessary costs of housing construction due to regulatory and approval requirement; secure property rights to residents

Health Care

• Create incentives for private health insurance; open health care delivery to competition

Social Security

• Create incentives for saving; encourage a private pension system that agglomerates investment capital

Environmental Quality

• Institute a regulatory regime that encourages movement to more environmental friendly methods; invest in technical assistance in eco-efficient processes and practices
• Clusters provide a framework for **organizing the implementation** of public policy and public investments towards economic development
The Role of the Private Sector in Competitiveness
Perspectives on Firm Success

- Competitive advantage resides solely inside a company or in its industry

- Competitive success depends primarily on company choices

- Competitive advantage (or disadvantage) resides partly in the locations at which a company’s business units are based

- Cluster participation is an important contributor to competitiveness
Role of the Private Sector in Economic Development

- A company’s competitive advantage depends partly on the **quality of the business environment**
- A company gains advantages from being part of a **cluster**
- Companies have a strong **role to play** in upgrading their business environment
  
- Take an **active role** in upgrading the local infrastructure
- Nurture **local suppliers** and attract foreign suppliers
- Work closely with local **educational and research institutions**, to upgrade their **quality and create specialized programs addressing the cluster’s needs**
- Inform government on **regulatory issues and constraints** bearing on cluster development
- Focus **corporate philanthropy** on enhancing the local business environment
  
- An important role for **trade associations**
  - Greater influence if many companies are united
  - Cost sharing between members
Kenya’s Competitiveness Agenda

• Context
  – Eliminate corruption and favoritism
  – Create an effective and trusted legal system
  – Continue improving security and safety
  – Streamline the taxation system

• National Business Environment
  – Improve telecom infrastructure
  – Upgrade logistical links internally and with neighboring countries
  – Improve electricity supply
  – Enhance public education
  – Improve business regulatory processes
  – Reduce trade and investment barriers
  – Maintain focus on opening competition

• Cluster Development
  – Initiate a formal cluster development program that covers all established and emerging clusters
  – Organize business support programs and government agencies around clusters

• Company Capabilities
  – Introduce quality certification
  – Assist companies in upgrading production methods

• Geographic Levels
  – Play a leadership role in economic integration with neighbors
  – Push responsibility for economic development to provinces

• Economic Development Process
  – Develop a bold investment promotion strategy
  – Engage the private sector in development
Defining a National Economic Strategy

Value Proposition

- What is the unique competitive position of the nation given its location, legacy, and existing and potential strengths?
  - What roles in the neighborhood, the broader region, and the world?
  - What unique value as a business location?
  - For what range and types of activities in the value chain, business, and clusters can the nation be competitive?

Developing Unique Strengths

- What elements of the business environment are essential strengths to realize the national value proposition?
- What areas of macroeconomic / political / legal / social context must be advantages versus neighbors or peers?
- What existing and emerging clusters must be activated?

Achieving and Maintaining Parity with Peers

- What areas of the general business environment must improve to maintain parity with peer countries?
- What macro / political / legal / social context improvements are necessary to maintain parity with peer countries?

Competitiveness cannot be achieved only by reducing weaknesses, but by building on existing and potential strengths.
National Economic Strategy
Singapore

National Value Proposition

• What roles in regional and world economy?
e.g., Business, financial, and knowledge hub of Asian region

• What unique value as a business location?
e.g., High productivity, skill, and knowledge intensity; location for managing and coordinating low-cost activities in the region

• For what range of clusters, activities within clusters?
e.g., clusters benefiting from business hub but not dependent on a large home market or physical proximity to markets

Creating Unique Strengths

Macro/political/legal/social
e.g., Absence of corruption in Singapore

National Diamond
e.g., Singapore’s physical infrastructure

Cluster Development
e.g., Singapore’s logistical services, financial services, petrochemical processing, tourism

Company Capabilities
e.g., large number of world-class multinationals with regional headquarters and significant operations in Singapore

Geographic Levels
e.g., Growth Triangle, ASEAN

Mitigating Weaknesses

Macro/political/legal/social
e.g., Expand Singapore’s cultural attractions

National Diamond
e.g., Upgrade Singapore’s research institutions; improve the efficiency of Singaporean domestic economy

Cluster Development
e.g., Develop more Singaporean SMEs to deepen clusters; improve the number and quality of IFCs

Company Capabilities
e.g., build the capability of Singaporean companies and encourage regional strategies

Geographic Levels
e.g., Create friendly relationships with ASEAN neighbors
Toward A Kenyan Economic Strategy

What are Kenya’s Unique Strengths?

• Gateway to east Africa
• Nairobi a regional business and air hub
• Distinctive culture
  – e.g. world class runners
• Competitive strengths in an array of clusters
  – Tourism
  – Agribusiness, e.g. cut flowers, coffee, tea
  – Logistics
• Strong and entrepreneurial local businesses

Some Implications

• Logistics and telecommunications infrastructure are crucial priorities
• Kenya must be highly open to trade and doing business
• Kenya cannot succeed unless it addresses corruption, security, and legal weaknesses
• Kenya's private sector is one of the country's greatest assets and must be mobilized