

# Prosperity for Colombia: Creating Shared Value

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*Bogotá, Colombia*  
*February 18, 2011*

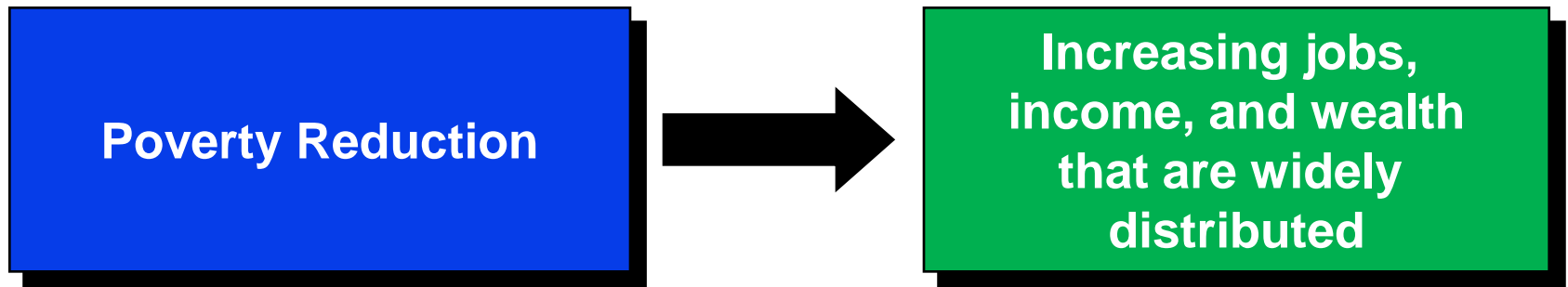
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This presentation draws on ideas from Professor Porter's books and articles, in particular, *Competitive Strategy* (The Free Press, 1980); *Competitive Advantage* (The Free Press, 1985); "What is Strategy?" (*Harvard Business Review*, Nov/Dec 1996); and *On Competition* (*Harvard Business Review*, 2008). No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Michael E. Porter. Additional information may be found at the website of the Institute for Strategy and Competitiveness, [www.isc.hbs.edu](http://www.isc.hbs.edu).

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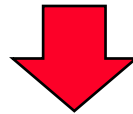
# The Goal of Prosperity

- **Prosperity for citizens** is the fundamental goal of any nation
- Prosperity is measured by an improving **standard of living** that is **broadly shared**
- Prosperity **underpins** not only the quality of life but the ability to meet other societal needs



# Competitiveness and Prosperity

- Competitiveness is the **productivity** with which a nation uses its human, capital, and natural resources
- Productivity determines **the standard of living** and **overall prosperity**
  - Productivity growth determines **sustainable economic growth**
- Productivity depends on **how** a nation competes, not what industries it competes in
- Productivity depends on building **connections to the global economy** and a mix of domestic and foreign firms



- Wealth can only be created by **business**
- Nations compete to offer the **most productive business environment**
- The public and private sectors play **different but interrelated roles** in creating a productive economy

# What Determines Competitiveness?



Endowments

- Endowments create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**

# Sources of Prosperity

## Inherited Prosperity

- Prosperity is derived from **inherited natural resources**
  - Prosperity is **limited**



- **Dividing** the pie
- **Government** is the central actor in the economy
- Resource revenues fuel corruption and allow **unproductive policies and practices to persist**

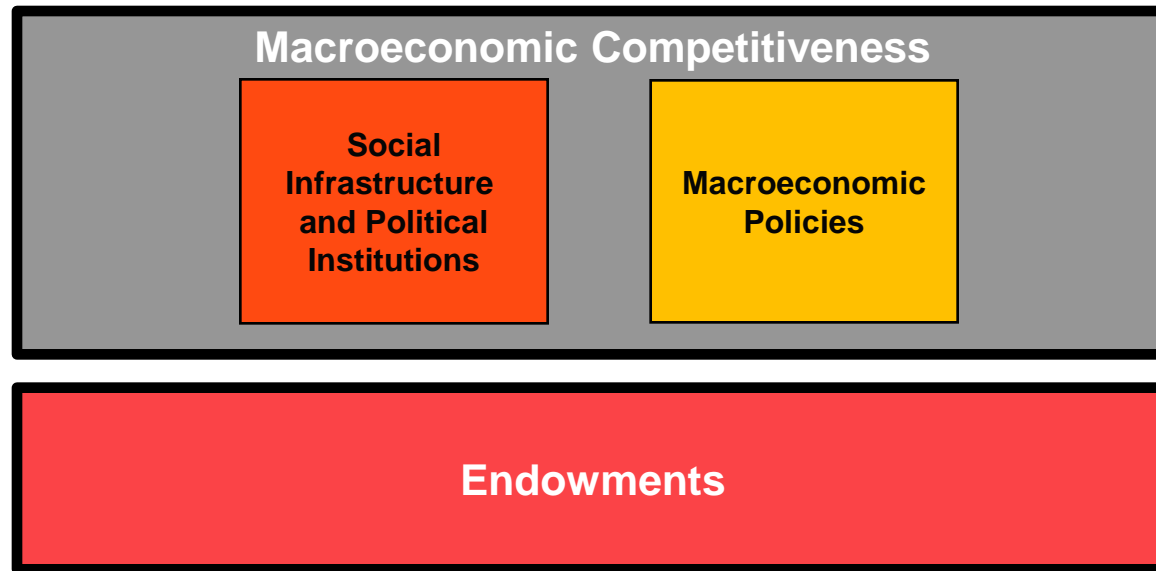
## Created Prosperity

- Prosperity results from **productivity** in producing goods and services
  - Prosperity is **unlimited**



- **Expanding** the pie
- **Companies** are the central actors in the economy
- **Government's role** is to create the **enabling conditions for productivity** and foster private sector development

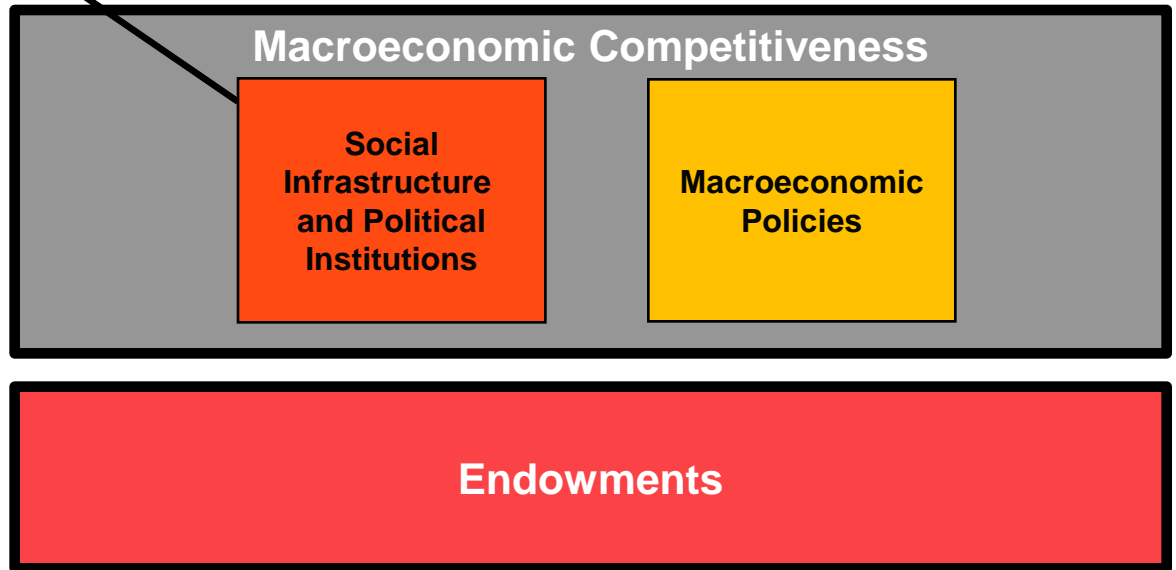
# What Determines Competitiveness?



- Macroeconomic competitiveness sets the **potential** for high productivity, but is **not sufficient**
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# What Determines Competitiveness?

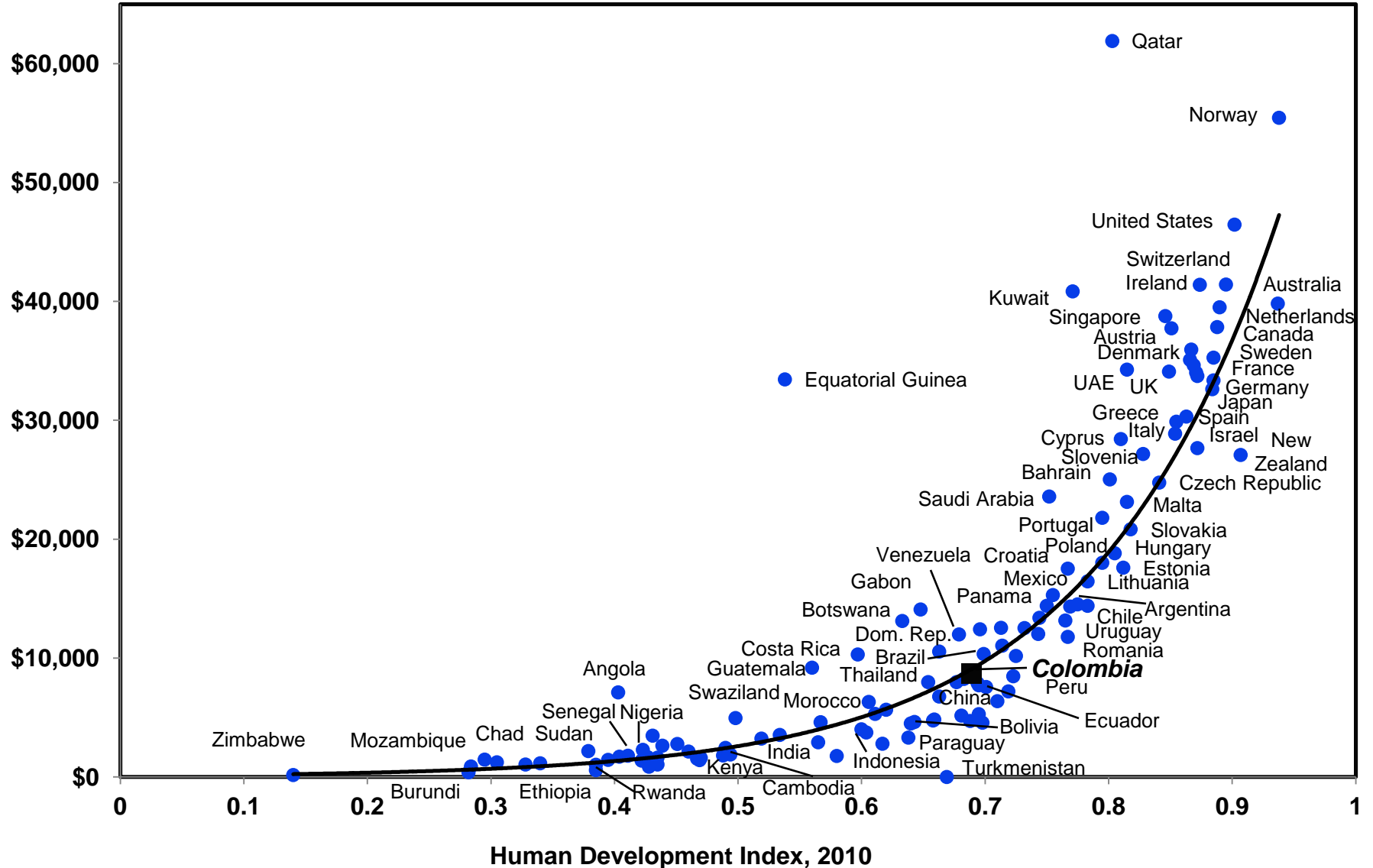
- Human Development: basic education and health care
- Rule of Law: security, property rights and due process
- Political Institutions: stable and effective political and governmental processes and organizations



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# Prosperity and Human Development

PPP GDP per capita (USD), 2009



Source: United Nations Human Development Index, 2010

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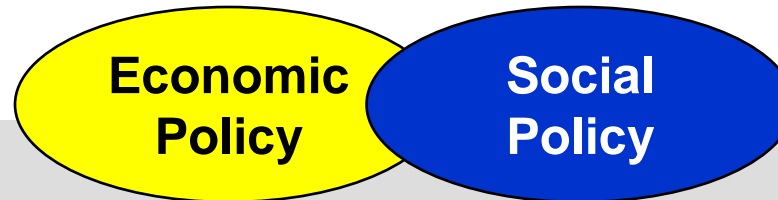
# Prosperity and Human Development

## Selected Countries

| Country         | GDP per Capita (PPP) | Rank                          |                 |                |
|-----------------|----------------------|-------------------------------|-----------------|----------------|
|                 |                      | Human Development Index (HDI) | Life Expectancy | Education Rank |
| Chile           | 45                   | 45                            | 34              | 44             |
| Argentina       | 44                   | 46                            | 52              | 40             |
| Uruguay         | 50                   | 52                            | 45              | 53             |
| Peru            | 65                   | 63                            | 74              | 52             |
| Brazil          | 60                   | 73                            | 81              | 93             |
| Venezuela       | 54                   | 75                            | 68              | 104            |
| Ecuador         | 70                   | 77                            | 54              | 88             |
| <b>Colombia</b> | <b>64</b>            | <b>79</b>                     | <b>76</b>       | <b>92</b>      |
| Bolivia         | 85                   | 95                            | 127             | 61             |
| Paraguay        | 88                   | 96                            | 89              | 98             |

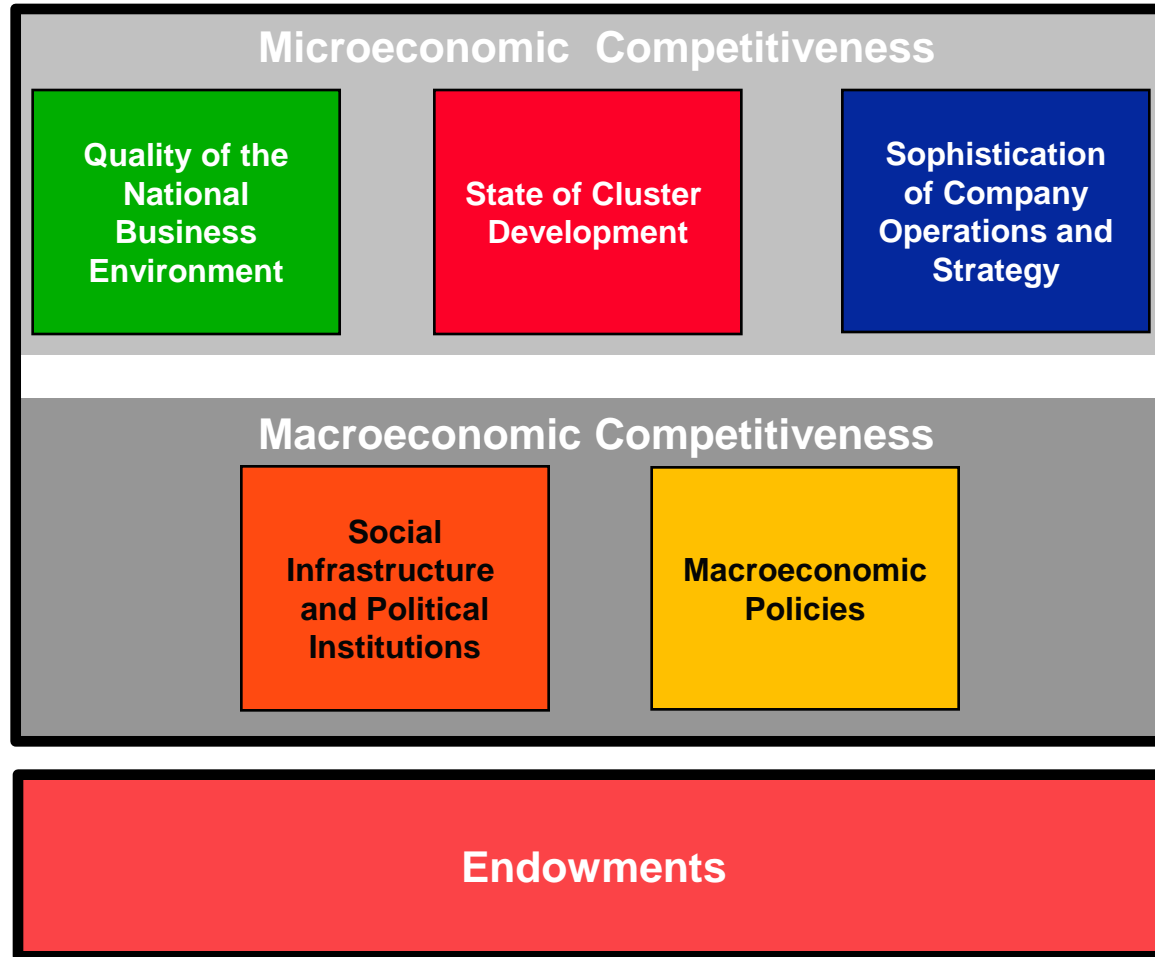
# Integrating Economic and Social Policy

- In enhancing competitiveness, there is **no inherent conflict** between economic and social policy



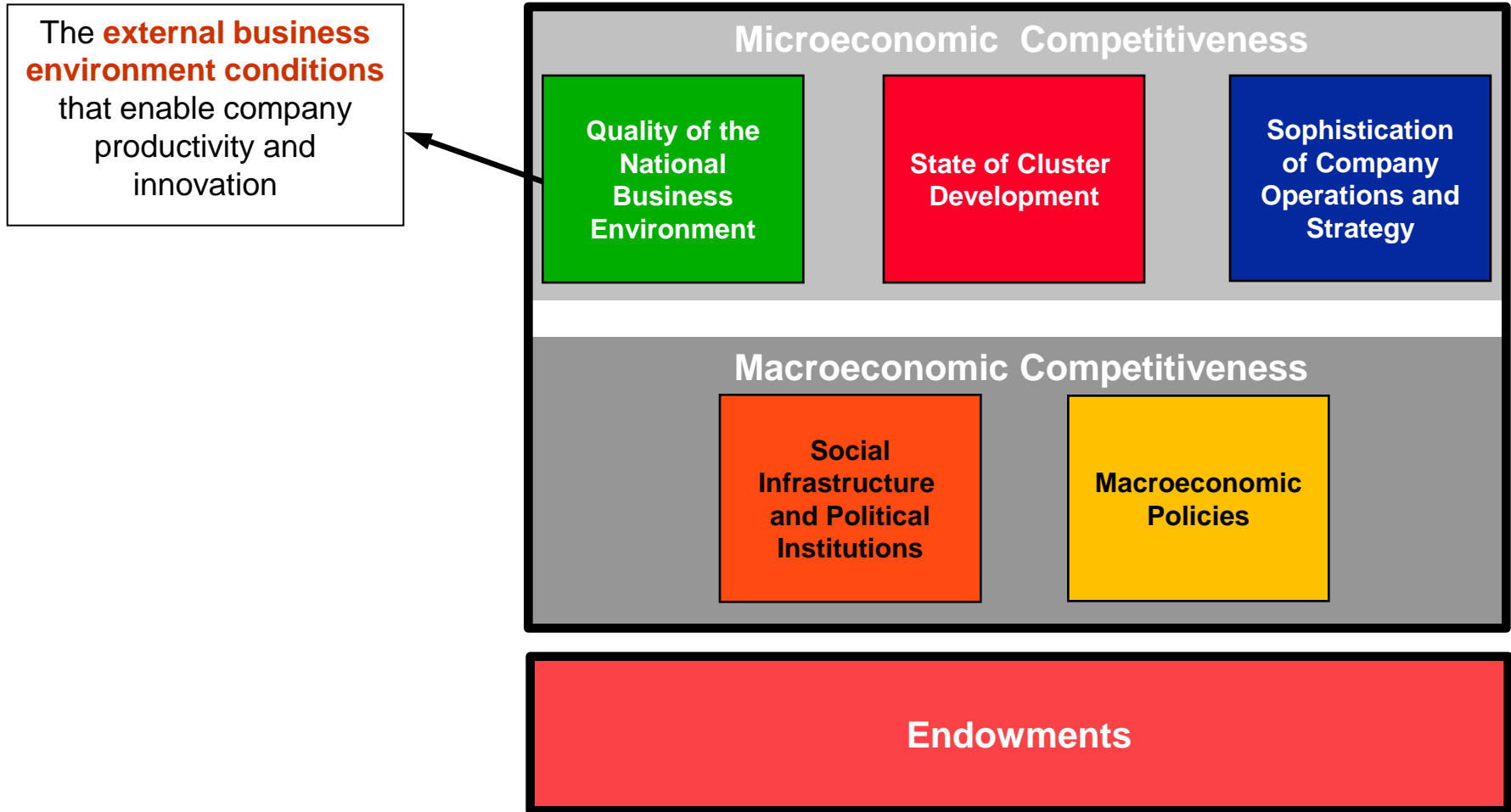
- A **productive and growing economy** requires:
  - Rising education levels
  - Safe working conditions
  - Healthy workers who live in decent housing in safe neighborhoods
  - A sense of equal opportunity
  - Assimilation of underemployed citizens into the productive workforce
  - Low levels of pollution and efficient natural resource utilization
- “Social” policies must be **aligned with productivity** in the economy and prepare and motivate citizens to **succeed in the market system**
- “Economic” policies must include explicit programs to **raise human capability** and improve the lives and **sense of opportunity** for citizens

# What Determines Competitiveness?



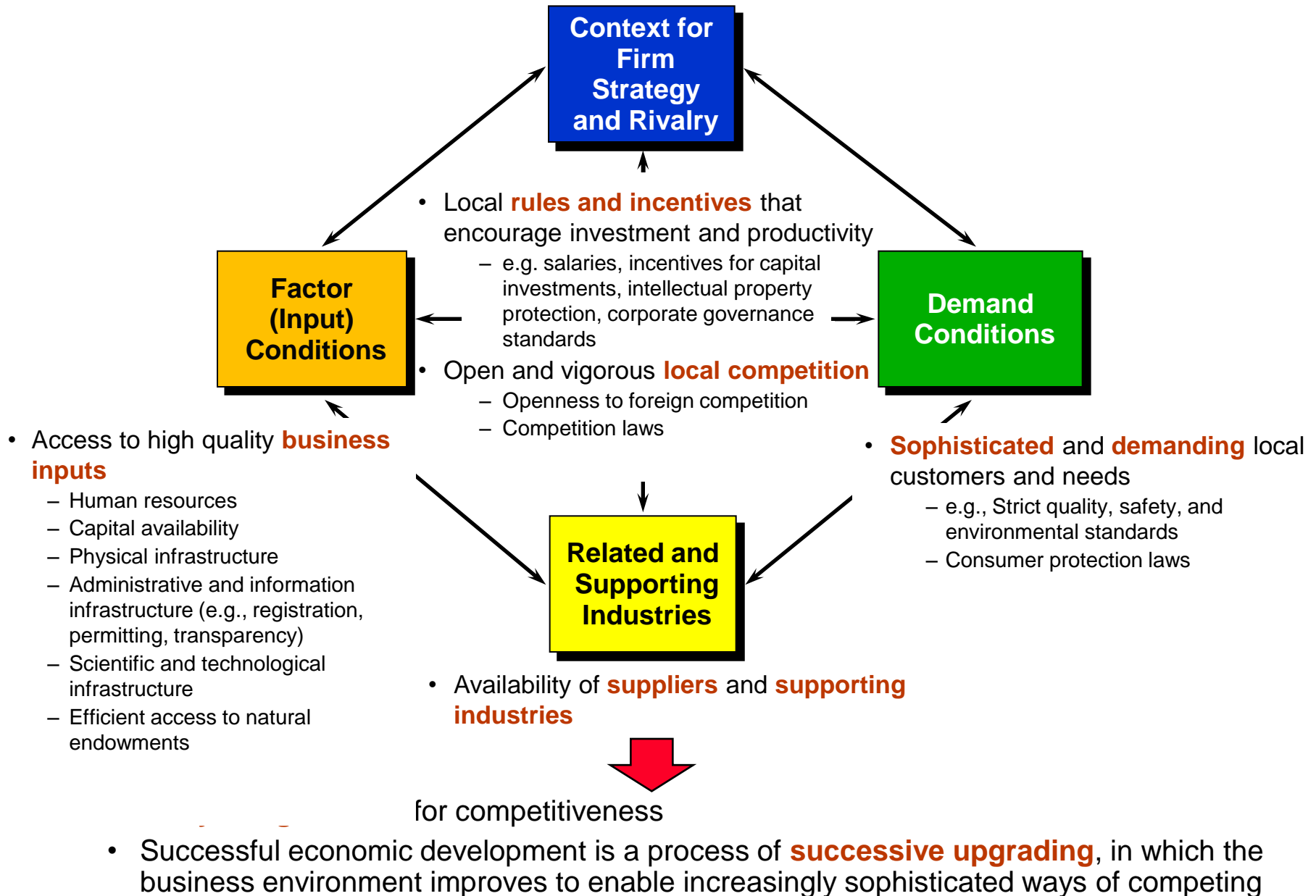
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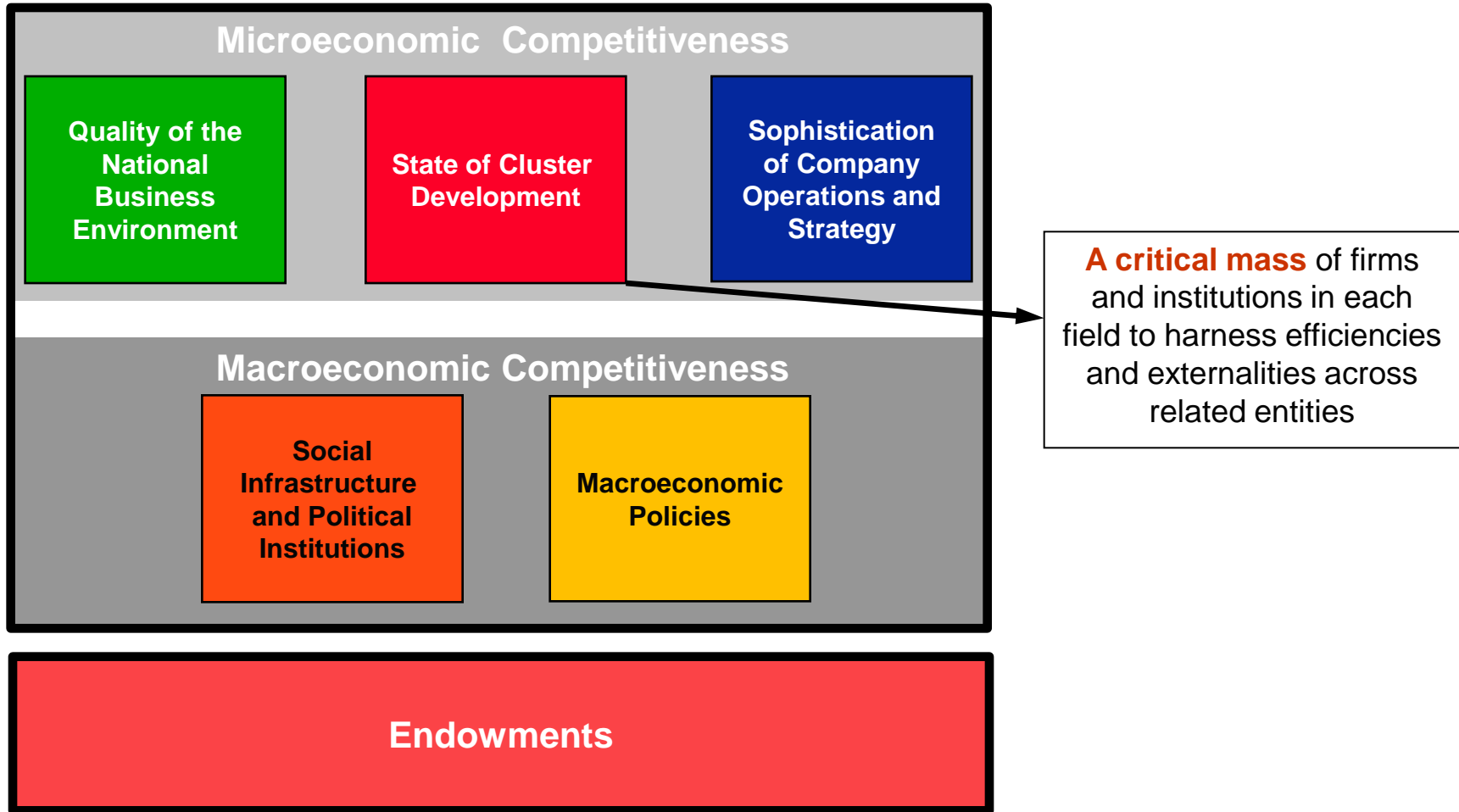


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# Quality of the National Business Environment



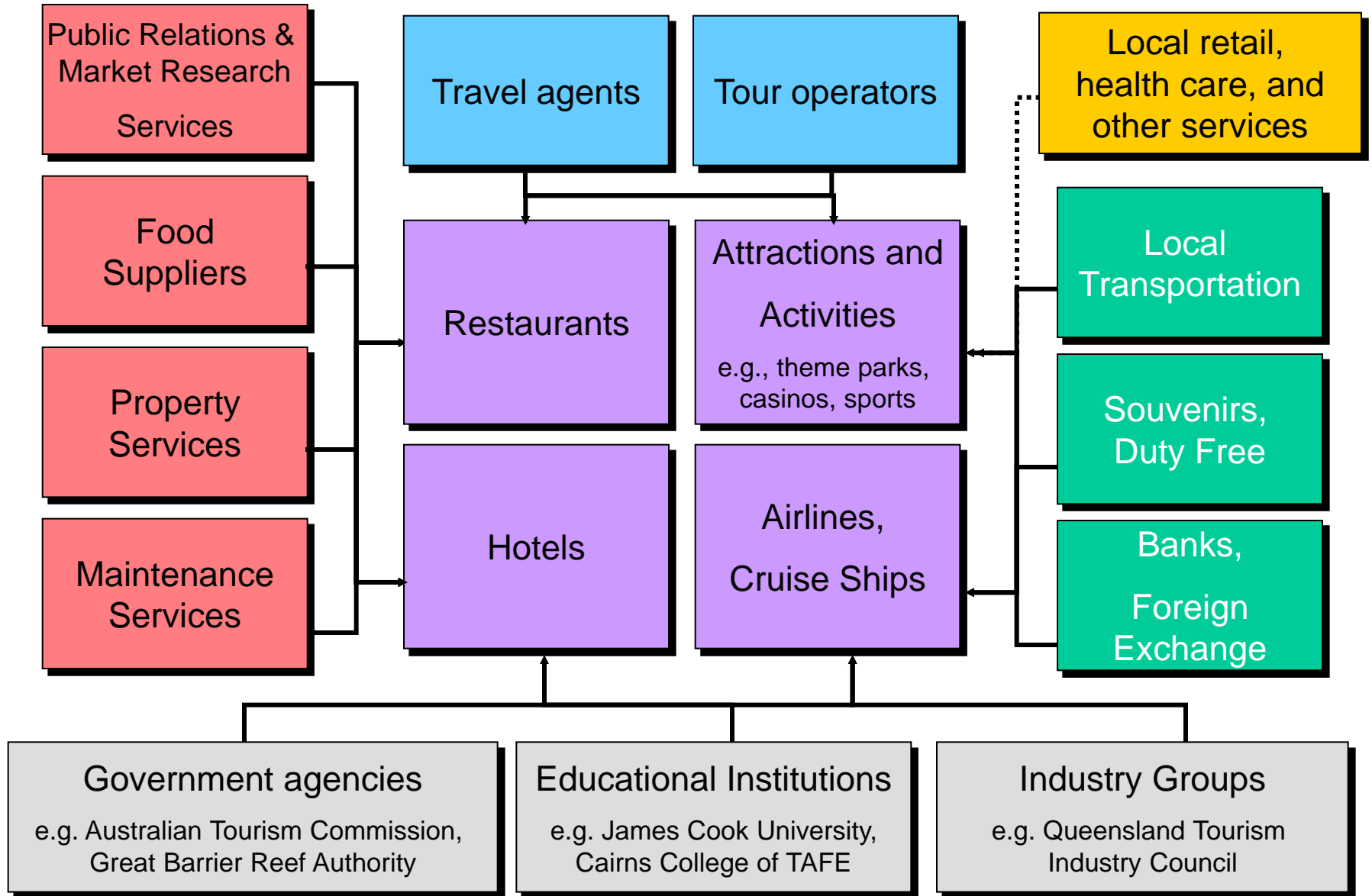
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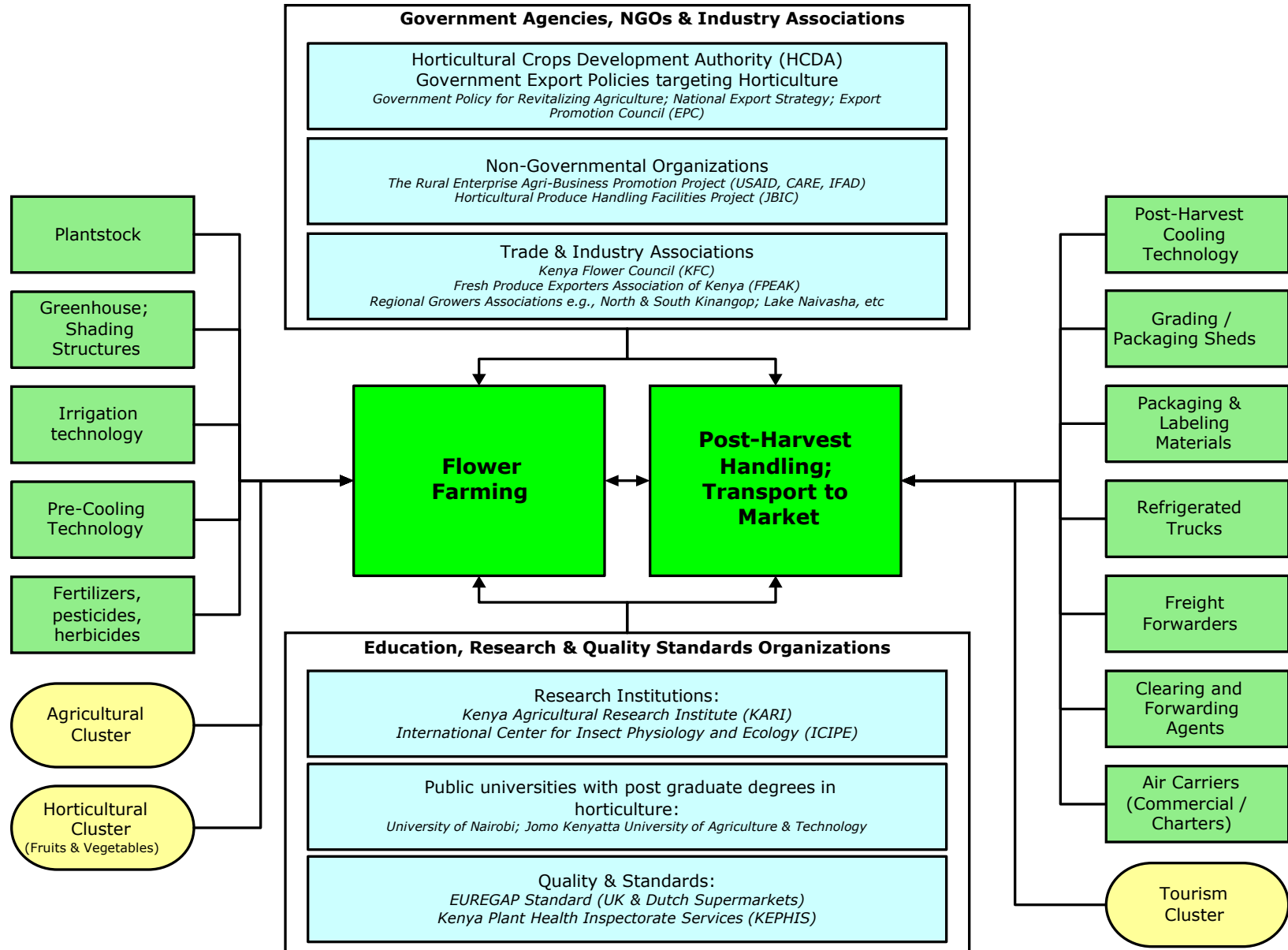
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# State of Cluster Development

## Tourism Cluster in Cairns, Australia



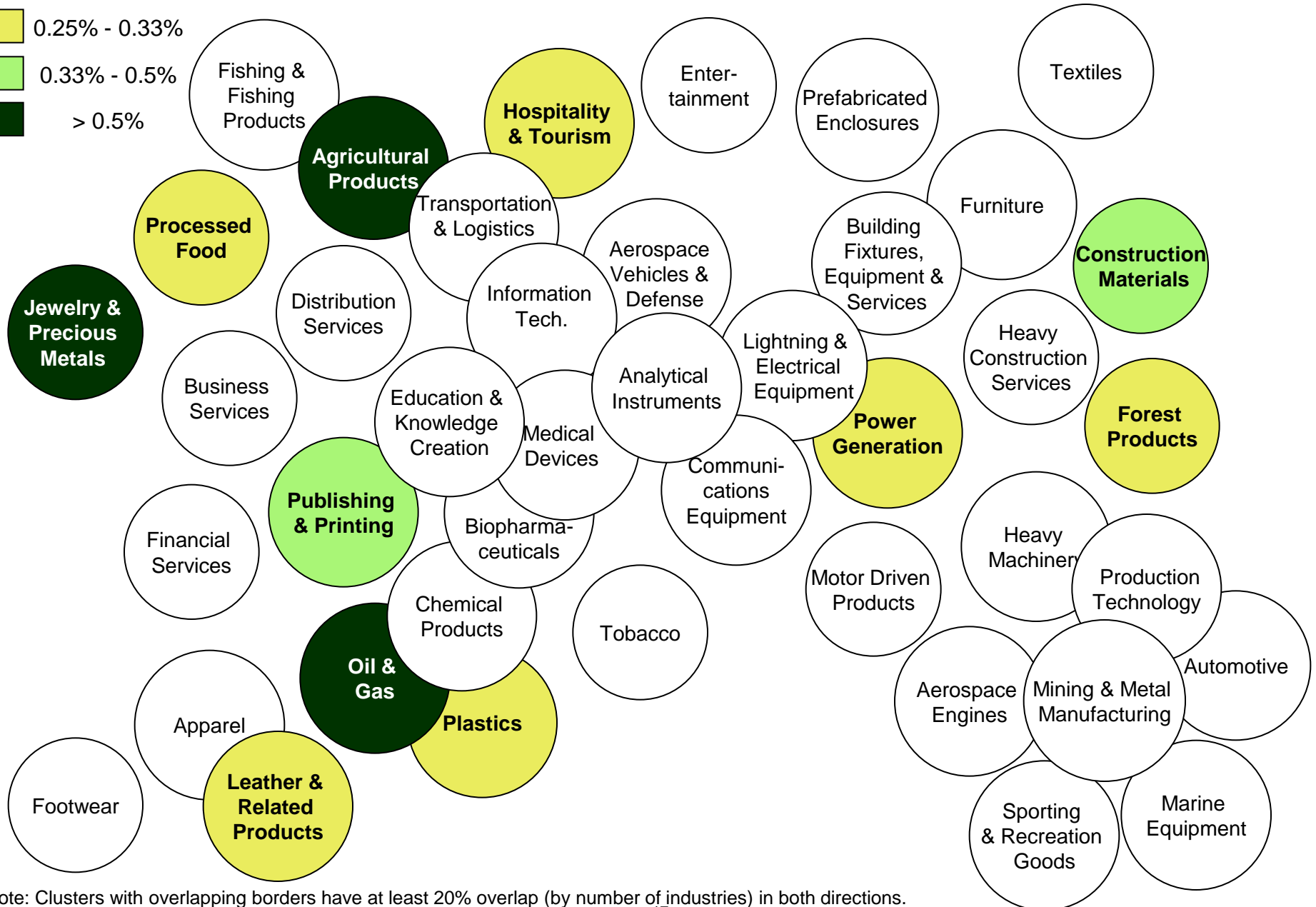
# Kenya's Cut Flower Cluster





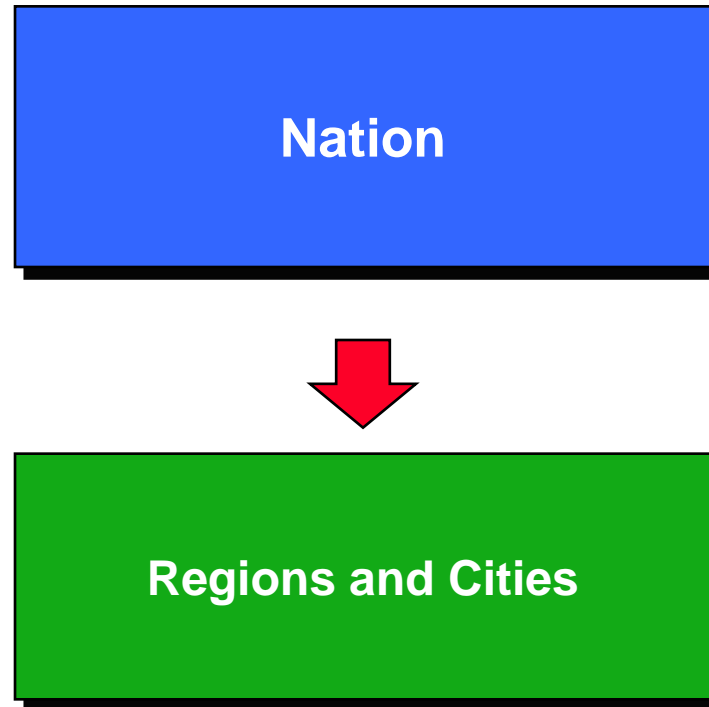
# Colombia's Share of World Exports by Cluster, 2009

World Market Share



Note: Clusters with overlapping borders have at least 20% overlap (by number of industries) in both directions.

# Geographic Influences on Competitiveness

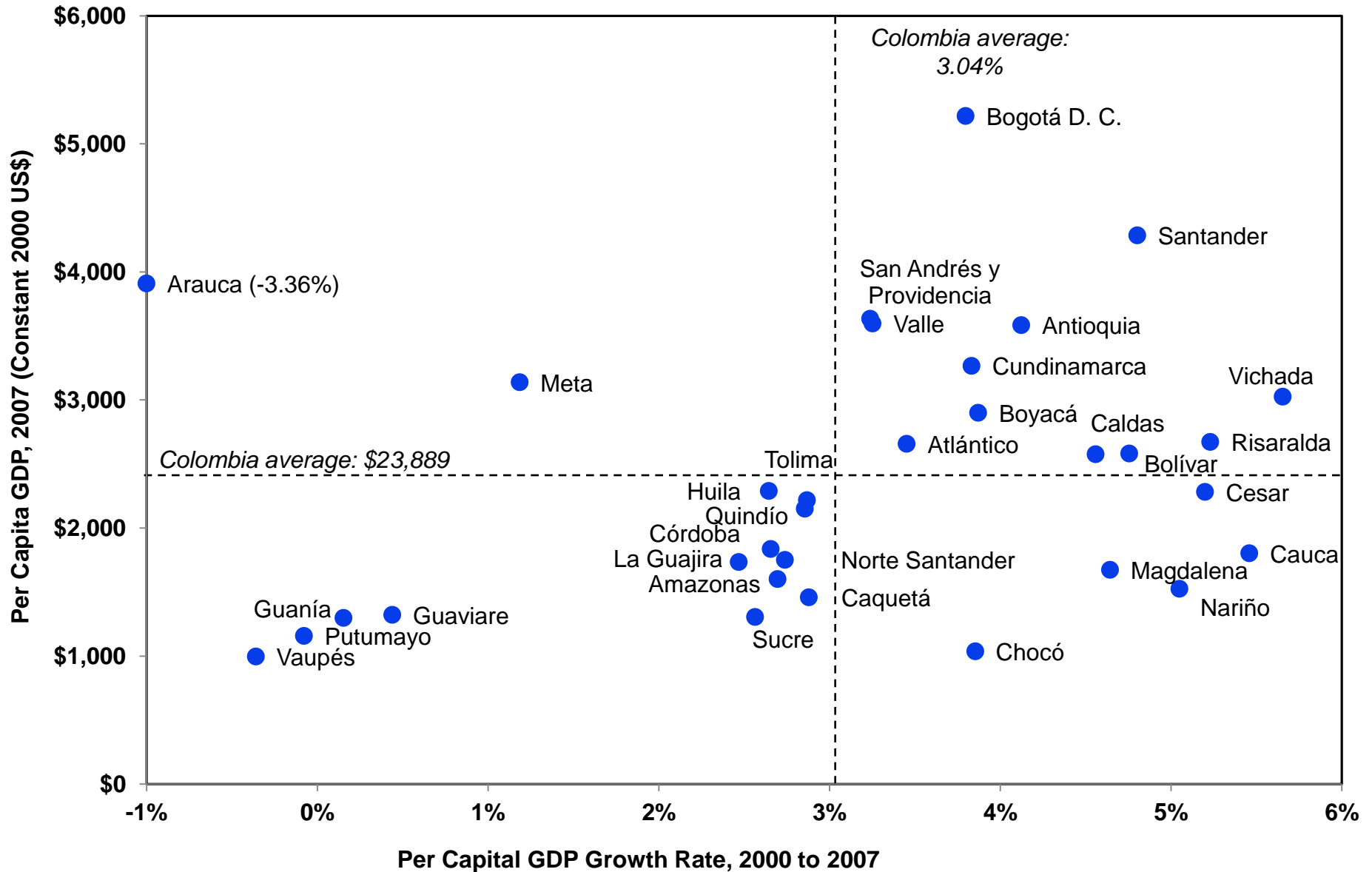


# Sub-National Regions of Colombia



# Prosperity Performance

## Colombian Departments, 2007



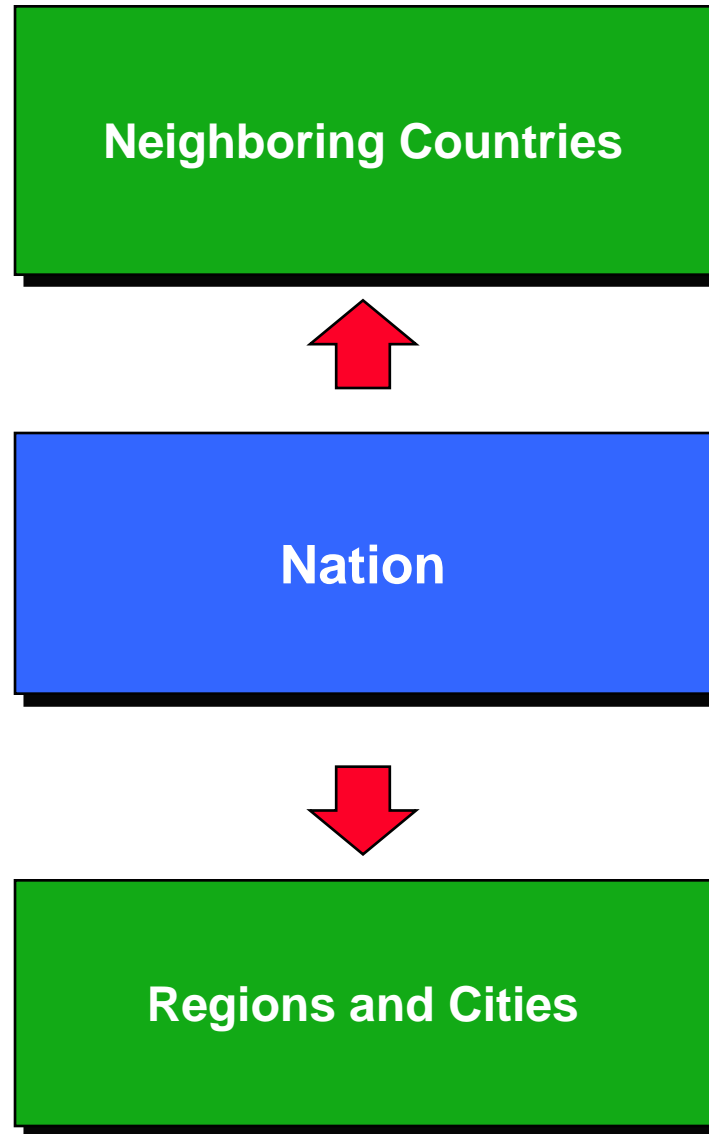
# Competitiveness and Sub-National Regions

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Region's **specialize** in different sets of clusters / activities
- **Cluster strength** directly impacts regional performance
- Each region needs its own distinctive **competitiveness agenda**
- Competitiveness requires **effective policy collaboration** between regions and the national government



- **Decentralization** of economic policy is especially important in large countries to foster regional specialization, internal competition, and greater accountability of government to citizens

# Geographic Influences on Competitiveness



# Economic Coordination with Neighboring Countries



# Economic Integration in the Neighborhood

- Opening **trade and investment** among neighbors
  - A nation's **neighbors** are its most natural trading and investment partners
  - Neighbors are the natural path of **internationalization** for local firms
  - Open trade and investment makes each neighboring nation a more attractive location for **investment**
- Economic coordination to drive **improvements in the business environment**
  - Capturing **synergies** in policy and infrastructure
  - Gaining greater clout in **international negotiations**
- External agreements to help **overcome domestic political and economic barriers** to reform



# The Role of Government in Prosperity

- Governments role is to establish the **platform for competitiveness** rather than interfere directly in competition
    - **Rules and regulations** to ensure open and productive markets
    - **Incentives** to encourage investment, productivity and innovation
    - **Standards** for governance quality, safety, and other impacts
    - Investments in **public assets**
- 
- And economic strategy for the country

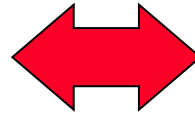
# The Need for an Economic Strategy

## Policy Improvement

- Implementing **best practices** in each policy area



- There are a **huge number** of policy areas that matter
- No country can or should try to make **progress in all areas** simultaneously



## Economic Strategy

- A prioritized agenda to create a **unique competitive position** for a country or region

# Creating An Economic Strategy

## National Value Proposition

- What are the **distinctive competitive assets** of the nation's economy given its location, legacy, existing strengths, rate of progress, and potential strengths?
  - What unique value as a business location?
  - In what areas of the economy / clusters?
  - Playing what roles with neighbors, the region, and the broader world?

## Developing Unique Strengths

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

## Addressing Crucial Constraints

- What are the most salient **weaknesses** or **constraints** that must be addressed to achieve parity with peer countries and allow the country to move to the next level?

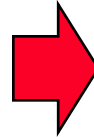
- **Priorities** and **sequencing** are a necessity in economic development

# The Process of Economic Development

## Shifting Roles and Responsibilities

### Old Model

- The **central government** drives economic development through policy decisions, spending and incentives



### New Model

- Economic development is a **collaborative process** involving government at multiple levels, companies, educational and research institutions, and private sector organizations

- Competitiveness is the result of both **top-down** and **bottom-up processes** in which many individuals, companies, and institutions take relevant decisions

# The Role of Business in Prosperity

- Only business can **create prosperity**

BUT

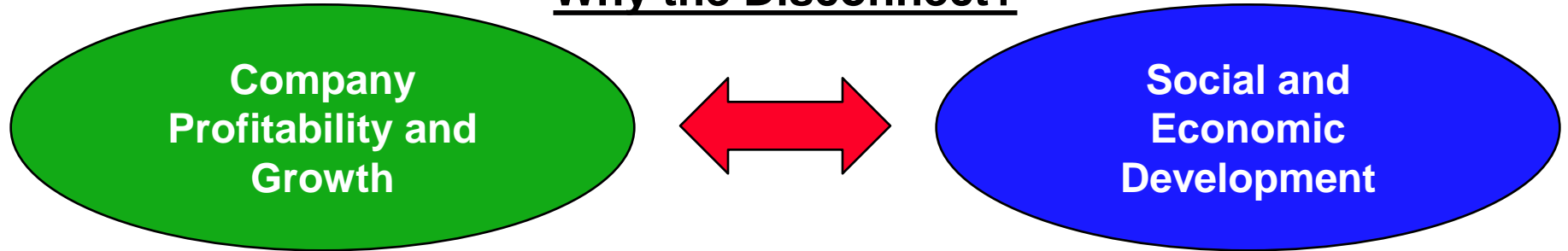
- Companies are often perceived to be prospering **at the expense of the broader community**
- Business increasingly is seen as **a major cause of social, environmental, and economic problems**
- Government and civil society often attempt to address societal issues **at the expense of business**



- The **legitimacy of business** has fallen

# Business and Society

## Why the Disconnect?

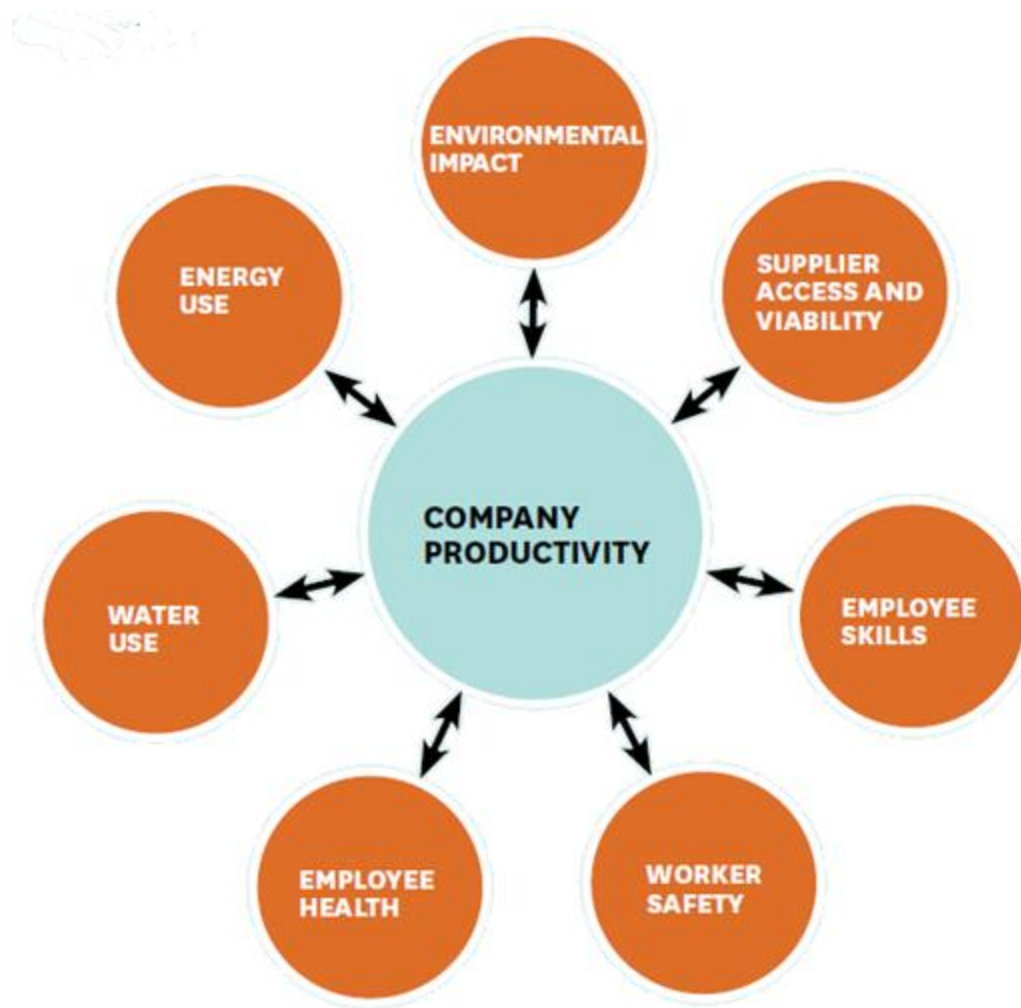


### A Narrow Model of Economic Value Creation

- Societal issues are **outside** the scope of business
    - CSR to improve reputation and “give back”
  - Companies focus on driving revenue, **overlooking** fundamental needs
  - Profitability improvement is driven by **downsizing, outsourcing, relocating**, and **globalizing**
  - Companies are **less connected** to producing locations and communities
- 
- Reinforced by **shortening time horizons**
  - **Growth** and **innovation** suffer

# Economic Value and Societal Needs

## Evolving Learning



- **Social** deficits create **economic** cost
- **External** conditions shape **internal** company productivity

# The Concept of Shared Value

**Shared Value: Corporate policies and practices that enhance the competitiveness of the company while simultaneously advancing social and economic conditions in the communities in which it operates**

- Create **economic value** by creating **societal value**
  - What is good for the community is good for business
- The next stage of thinking about **capitalism**



- Concern with **societal issues** will be a defining characteristic of the post-crisis era
- Incorporating societal issues into strategy is **the next major transformation** in management thinking



# Levels of Shared Value

- Reconceiving customer **needs, products, and markets**
- Redefining productivity in the **value chain**
- Enabling local **cluster development**

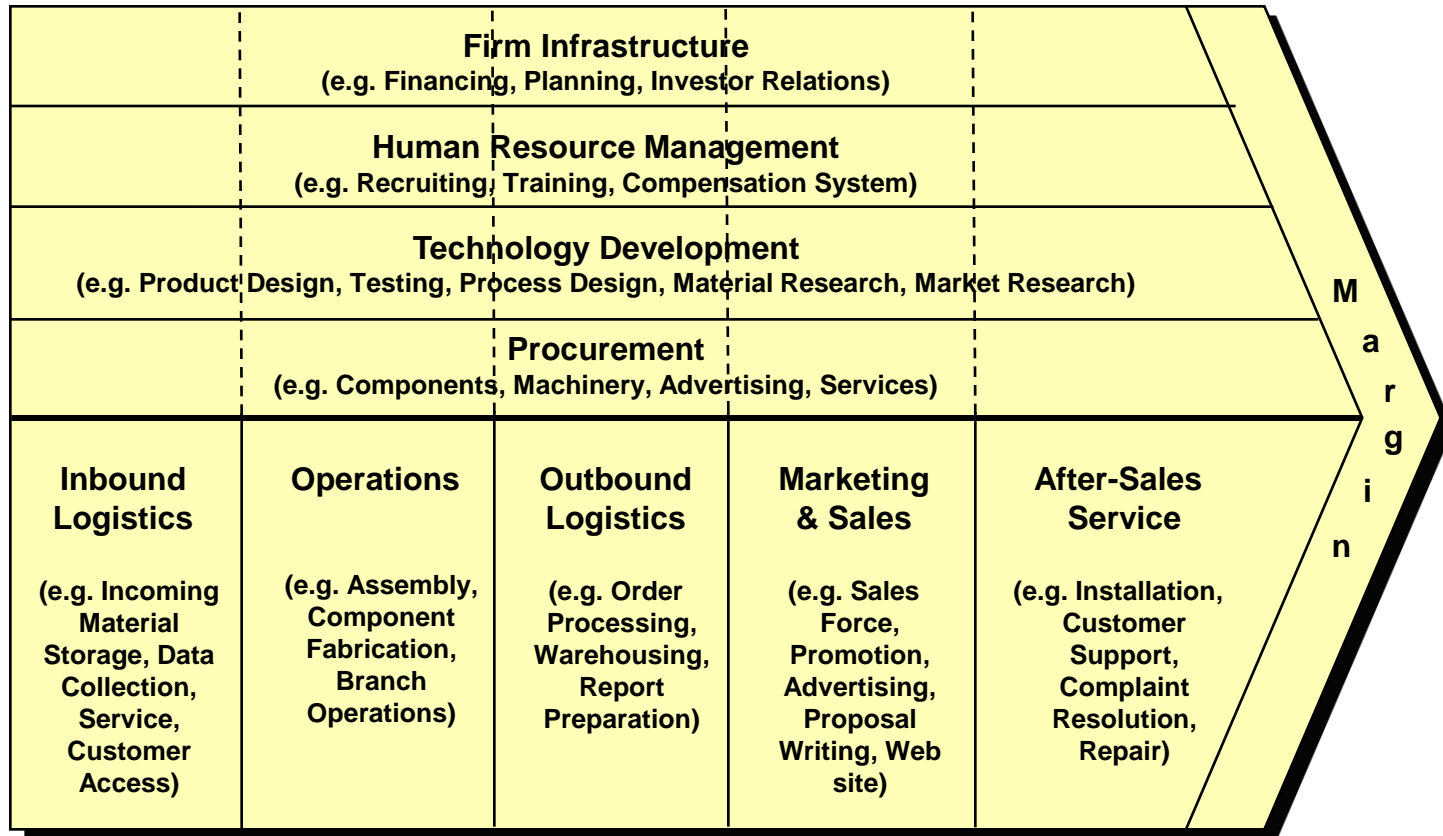
# Reconceiving Products and Markets

- Designing products and services to **address societal needs**
  - E.g., environmental impact, safety, health, education, living with disability, housing, financial security
  - Businesses have the potential to be more effective than governments and non profits in **marketing** solutions to social problems
- Opening **new markets** by serving unmet needs in underserved communities and developing countries
  - Spurs **social** and **economic** development
  - Meeting needs in underserved markets often requires **redesigned products** or different **distribution methods**



- Serving new needs and new customers opens up opportunities for **innovation** and **differentiation**
- A new generation of **social entrepreneurs** are capturing these opportunities

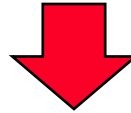
# Redefining Productivity in the Value Chain



- Energy use
- Logistical efficiency
- Resource use
- Employee productivity
- Location of facilities and the supply chain

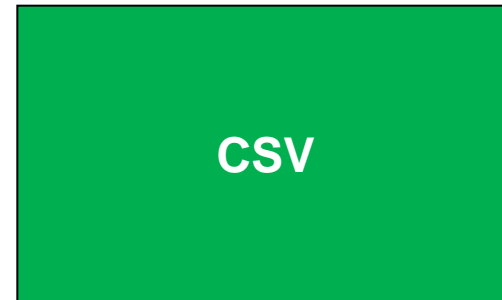
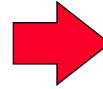
# Local Cluster Development

- A strong local cluster **improves company productivity**
  - e.g., **more capable local suppliers** increase company's efficiency and reduce environmental impact
- **Companies**, working collaboratively, can catalyze major improvements in their cluster and the local business environment



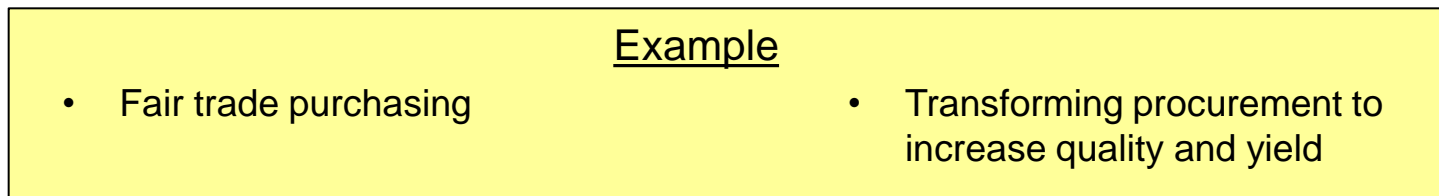
- Local cluster development **amplifies the link** between a company's success and community

# Moving to Shared Value



- Values: doing **good**
- Good **citizenship, philanthropy, sustainability**
- **Discretionary** or in response to external **pressure**
- **Separate** from profit maximization
- Agenda is determined by **external standards** and personal preferences
- Impact **limited** by corporate footprint and CSR budget

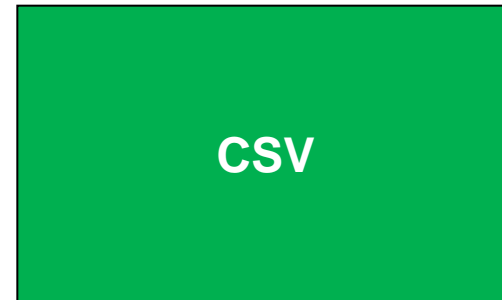
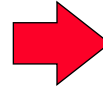
- Value: economic and societal **benefits relative to cost**
- **Joint** company and community **value creation**
- **Integral** to competing
- **Integral** to profit maximization
- Agenda is **company specific** and internally generated
- Realigns the **entire company budget**



- In both cases, **compliance** with laws and ethical standards and reducing harm for corporate activities are **assumed**

# Moving to Shared Value

## Novartis



- Free drugs given to lower-income citizens
- Same product, lower price
- For-charity
- Short-term product giveaways
- Solely giving, uni-directional



- Lower revenue

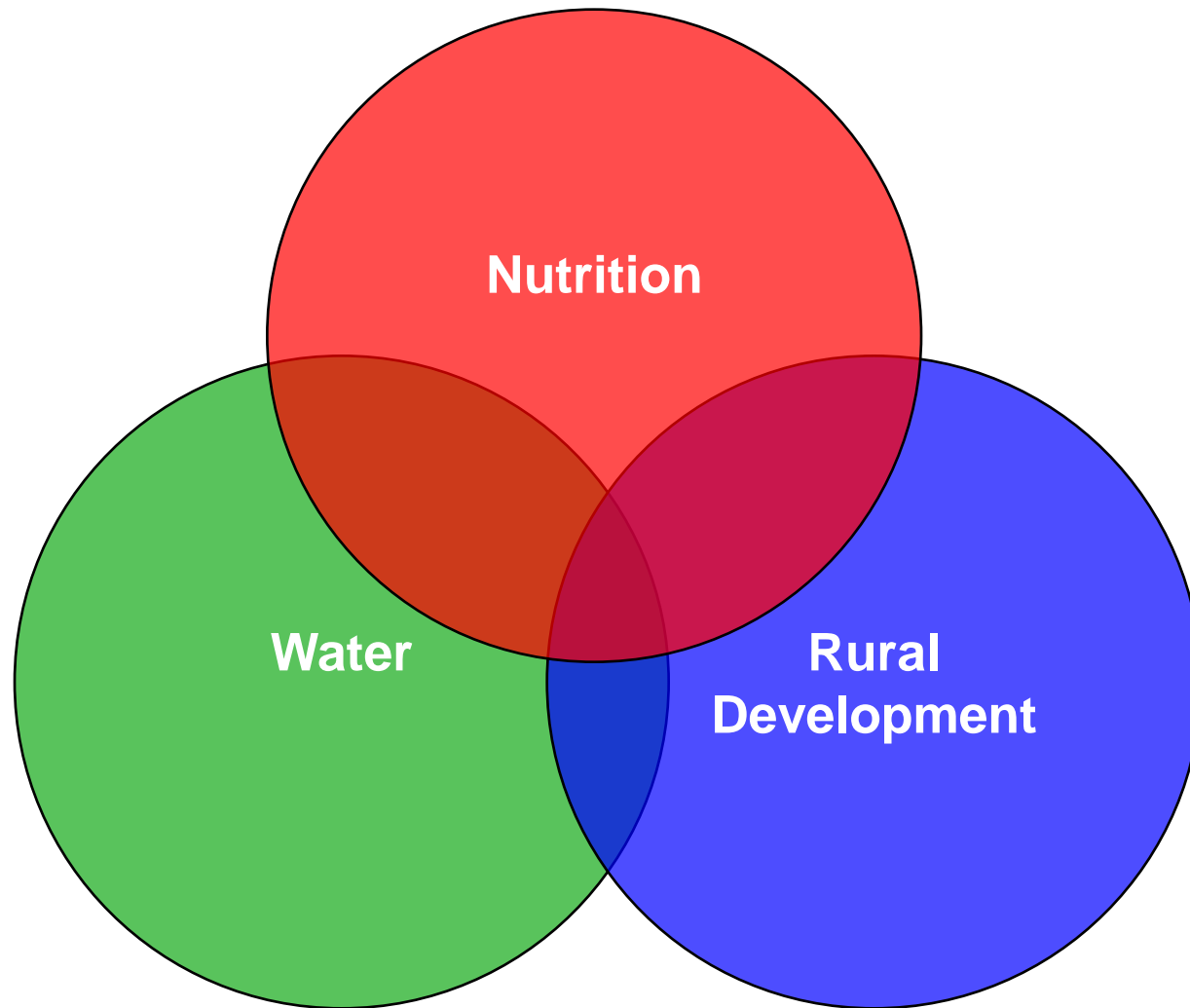
- Arogya Parivar: Implementing a new distribution channel for the bottom of the pyramid
- Same price, smaller quantities
- For-profit
- Long-term investment in healthcare infrastructure
- Learning customer behavior, preferences



- Profitable business model

# Creating Shared Value: Deciding Where to Concentrate

## Nestlé



- Opportunities to create shared value are inevitably **tied closely** to a company's particular businesses

# Creating Shared Value

## Nespresso

*Implementing shared value in sourcing coffee from farmers in Costa Rica, Guatemala, Colombia, and Ghana*

- Reconfiguring the value chain
  - Reconceiving procurement
- Upgrading the cluster
  - Supporting cluster development, including cluster institutions
  - Partnering with stakeholders

### Shared Value

#### Farmers

- Better yields
- Better prices
- Better processing

#### Community

- Environmental sustainability
- Economic development

#### Nespresso

- Stable supply
- Better quality
- Reinforces strategic positioning

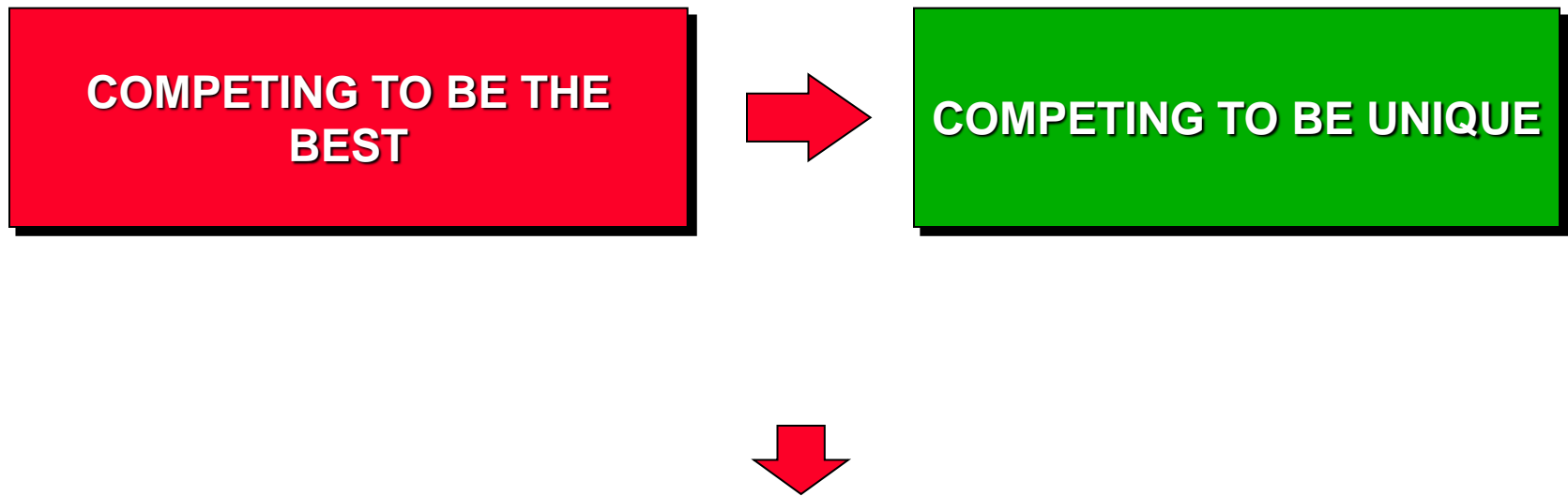


# Collaboration and Shared Value



- All three levels of shared value are **mutually reinforcing**
- Collaboration **within the private sector** can be more effective than solo efforts in improving the cluster and external context
- Creating shared value will require new kinds of **expertise** and **insight**
- Companies will benefit from **new kinds of business partners** (e.g., NGOs)
  - NGOs have emerged that see their role as **facilitating the creation of shared value** with corporations
- Enabling cluster development will almost always require engaging **governments**, **NGO's**, **educational organizations**, and other **non-traditional partners**

# Thinking Strategically

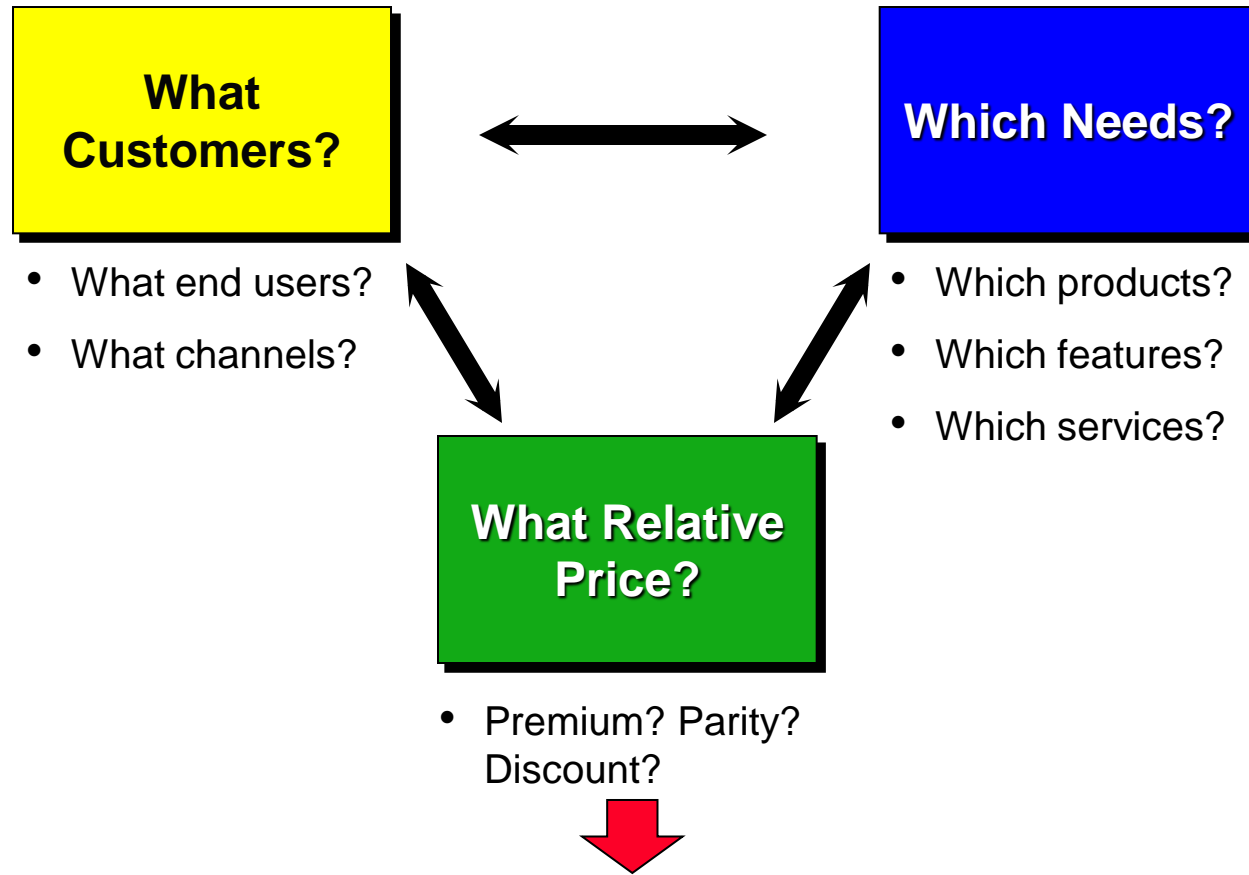


The worst error in strategy is to compete with rivals on the **same dimensions**

# Adding a Social Dimension to Strategy

- Shared value opens up new **needs**, new **markets**, and new **approaches to configuring value chains**
- Opportunities for **new strategic positions**, and new tools for **extending existing positions**, are created

# Defining the Value Proposition



- A novel value proposition often **expands the market**

# Adding a Social Dimension to Strategy

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- Companies should incorporate a **social dimension** to the value proposition
- Shared value can **reinforce** and even **anchor** a company's strategy
- These social dimensions of strategy can be **more sustainable** than conventional cost and quality advantages

# Shared Value and Strategic Positioning

## Whole Foods Markets

### Value Proposition

- Natural, fresh, organic, and prepared foods and health items with excellent service at premium prices
- Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
- Educated, middle class, and affluent 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 and microcredit if needed
- 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 (and price) from the boat to the counter
- Heavy emphasis on environmental sustainability in all activities.
- Emphasis on supporting community development



- Successful strategies in the future will embody a major **shared value dimension**

# Creating Share Value

## Implications for Government and Civil Society

- Government and NGOs have often acted as if **trade-offs** between economic and social benefits are inevitable



- Government and NGOs will be most effective if they think in **shared value terms**
- It does not matter what **type of organizations** create the value
- The **best-positioned organization** should use resources and deliver benefits
- The right kind of **regulation** can encourage companies to pursue **shared value**; poor regulation prevents it

### A New Type of NGO

|   |   |
|---|---|
| <b><i>TechnoServe</i></b>                         | Promotes the development of agricultural clusters in more than 30 countries |
| <b><i>RootCapital</i></b>                         | Provides financing to more than 400,000 farmers and businesses              |
| <b><i>Bill &amp; Melinda Gates Foundation</i></b> | Forms partnerships with global corporations to foster agricultural clusters |

# Corporate Social Responsibility in Colombia

- Colombia has a well-developed set of NGOs and foundations involved in social causes
- As of 2008, 62% of Colombian firms **have CSR programs** and spend an average of 2.7% of sales on CSR-related activities
- Colombian CSR has been supported by **trade associations**
  - The **National Trade Council** is an important coordinating group
- **Government** has encouraged CSR through mechanisms such as tax deductibility
- Most CSR programs involve **donations to multiple projects** covering a wide range of areas
- Recently, **private philanthropy** has also grown



# Implications for Colombia

- Colombia has a rich history of **private sector involvement** in social programs
- However, CSR activities in companies are **fragmented** and often **disconnected** from their businesses
- Actual CSR activities have been delegated to **government** and **NGOs**

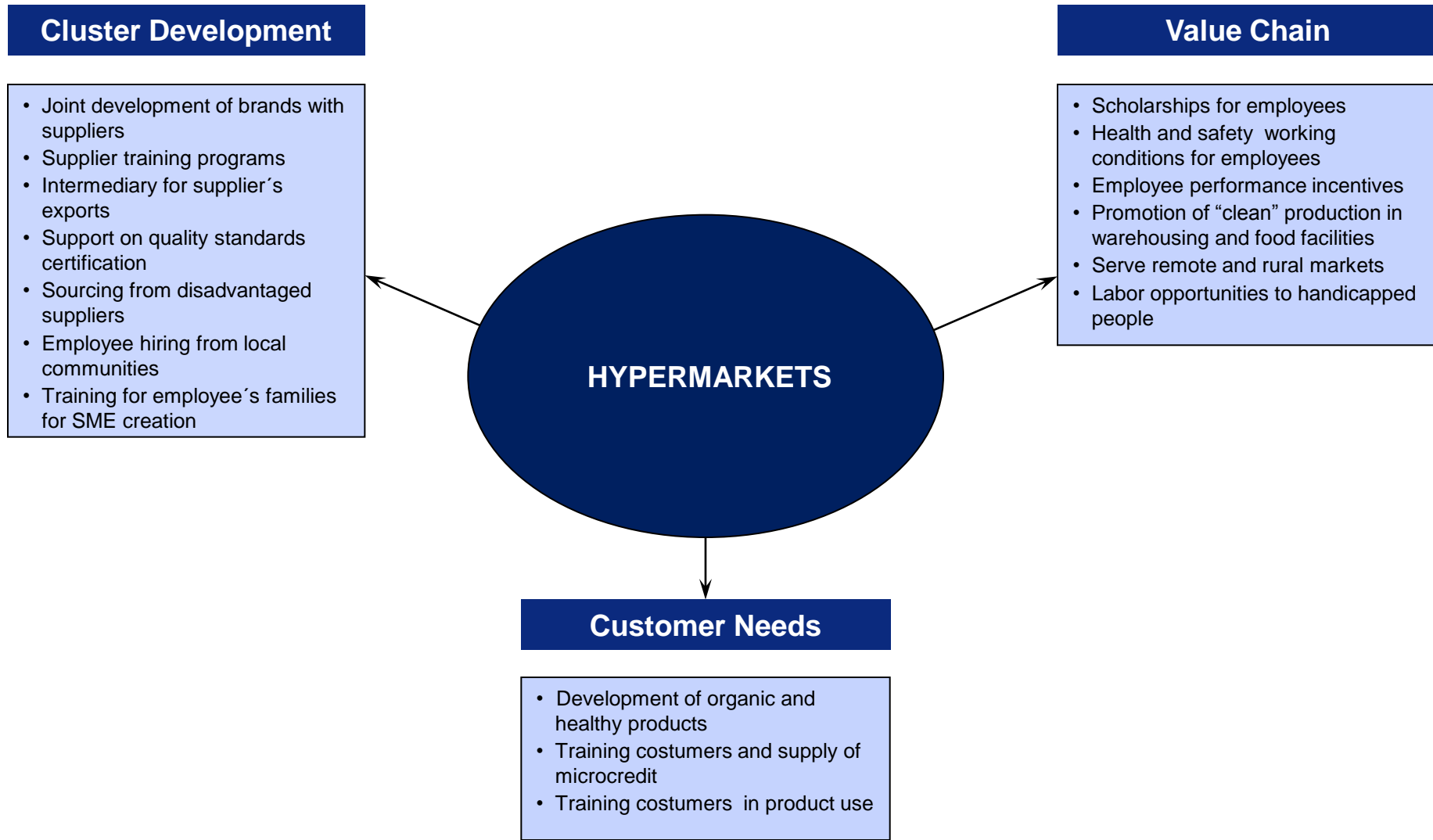


- Colombia needs to shift to **shared value** as the driving force for societal improvement
  - In companies
  - In NGOs and government

# Implications for Colombian Companies

- Shift from **CSR** to **CSV**

# Moving to CSV: Hypermarkets in Colombia



# Implications for Colombian Companies

- Shift from **CSR** to **CSV**



- Embed CSV in **operating units**
  - Transform **corporate foundations** and CSR staff into facilitators of CSV in operating units
- Improve **collaboration with other companies** around common CSV objectives
- Create new **relationships with government and NGOs** around CSV opportunities

# The Purpose of Business

- There is an opportunity to **transform thinking and practice** about the role of the corporation in society, using the concept of **shared value**
- Shared value gives rise to **far broader approaches** to economic value creation
- Shared value thinking will drive the next wave of **innovation, productivity enhancement, and economic growth**
- Businesses acting as businesses, not as charitable givers, are arguably the most powerful force for **addressing many of the pressing issues facing our society**
- A transformation of business practice around shared value will give **purpose** to the corporation and to capitalism itself, and represents our best chance to **legitimize business again**