

Regional Competitiveness and the Role of Business

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This presentation draws on ideas from Professor Porter's articles and books, in particular, [The Competitive Advantage of Nations](#) (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in [The Global Competitiveness Report](#) (World Economic Forum), "Clusters and the New Competitive Agenda for Companies and Governments" in [On Competition](#) (Harvard Business School Press, 2008), and ongoing research on clusters and competitiveness. 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. Further information on Professor Porter's work and the Institute for Strategy and Competitiveness is available at www.isc.hbs.edu

Agenda

- I. Regional Competitiveness: The New Learning
- II. The Role of Business

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I. Regional Competitiveness: The New Learning

II. The Role of Business

What is Competitiveness?

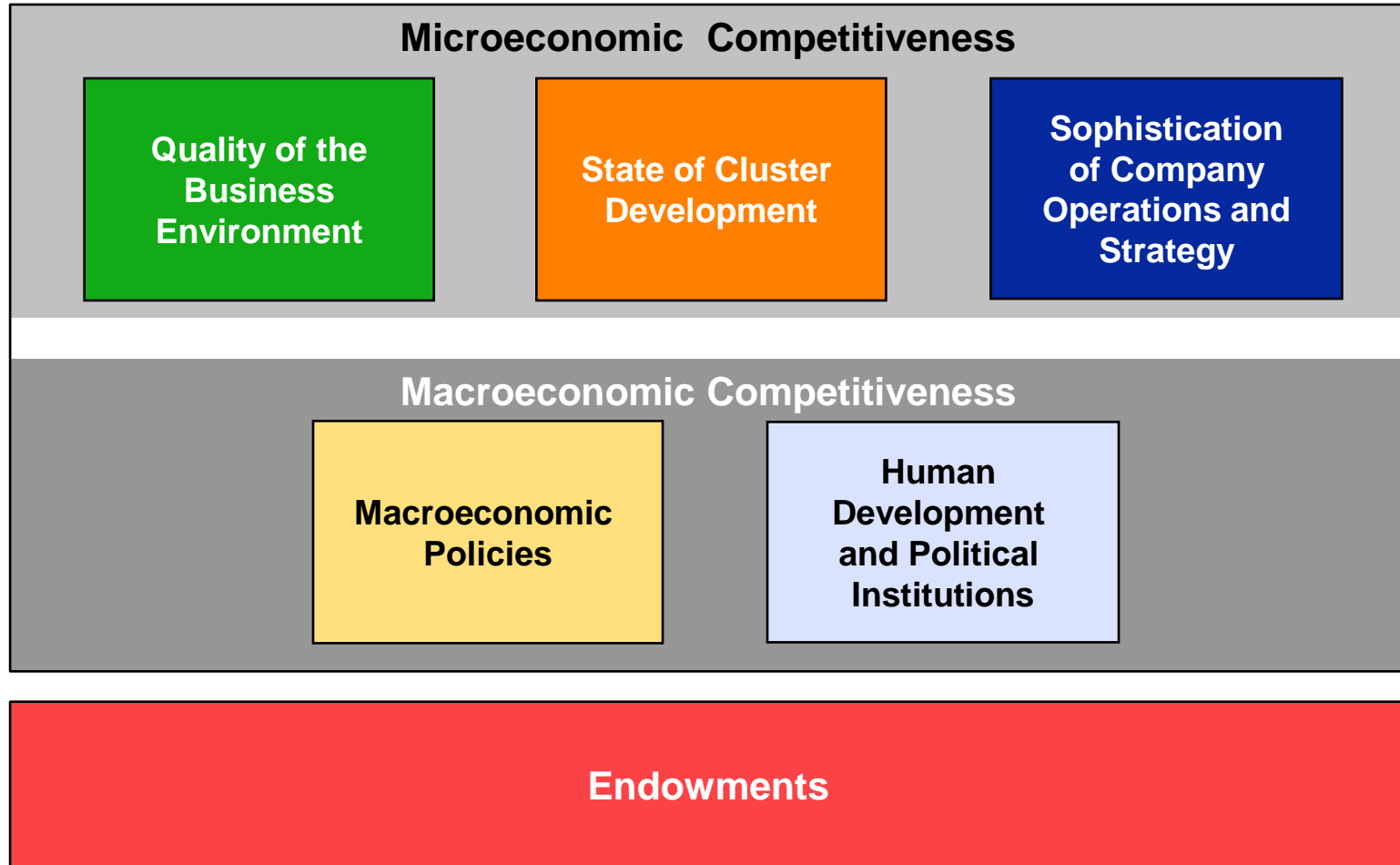
A nation or region is competitive to the extent that firms operating there are able to **compete successfully** in the global economy while supporting **rising wages and living standards** for the average citizen

- Competitiveness depends on the **long term productivity** with which a nation or region uses its human, capital, and natural resources
 - Productivity **sets sustainable wages, job growth, and standard of living**
 - It is not **what** industries a nation or region competes in that matters for prosperity, but **how productively** it competes in those industries
 - Productivity in a national or regional economy benefits from a **combination of domestic and foreign firms**



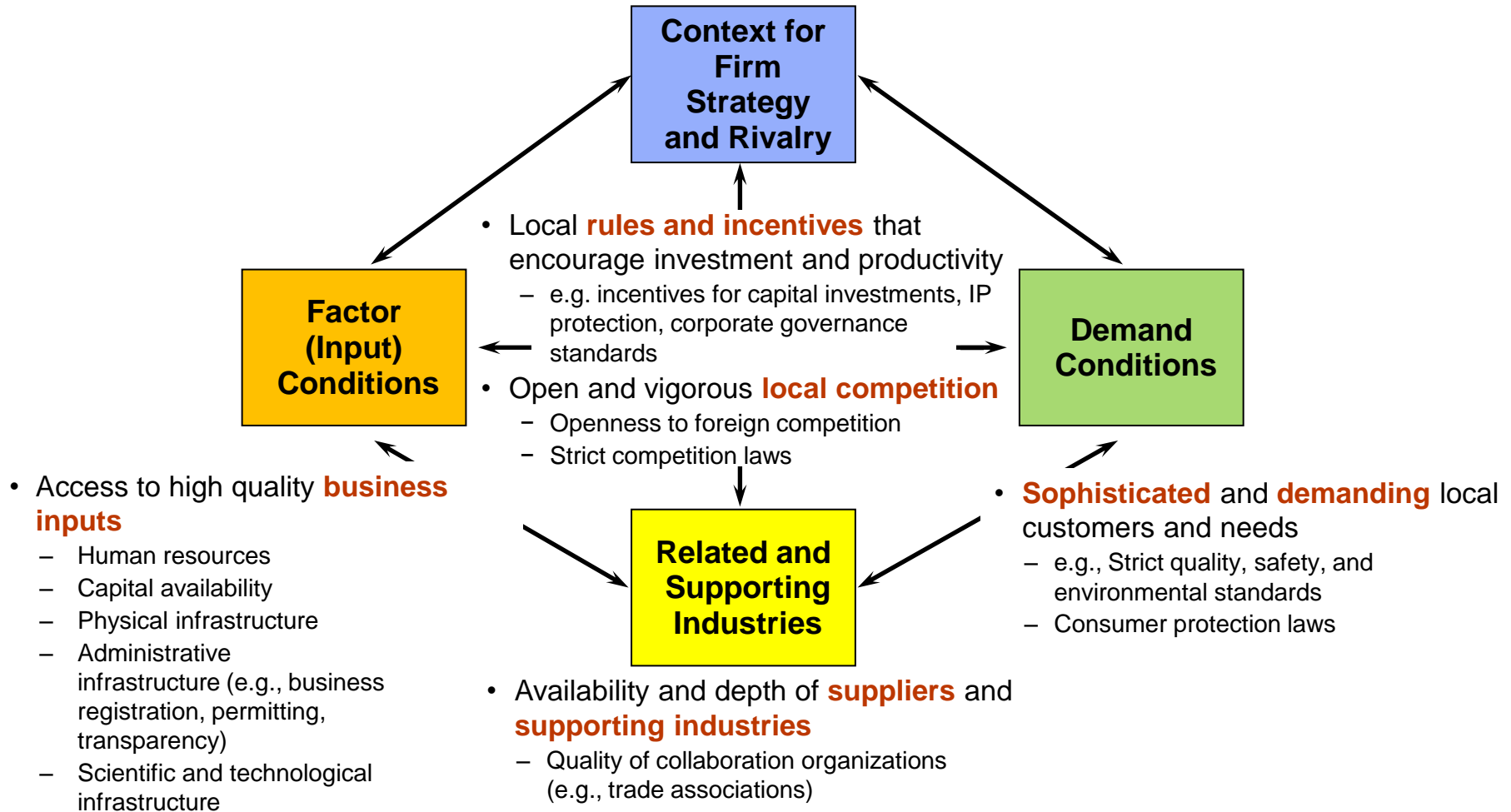
- Nations and regions compete to offer a **more productive environment for business**
- Competitiveness is **not a zero sum game**

What Determines Competitiveness?



- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**
- Macroeconomic competitiveness sets the **potential** for high productivity, but is **not sufficient**
- Endowments create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**

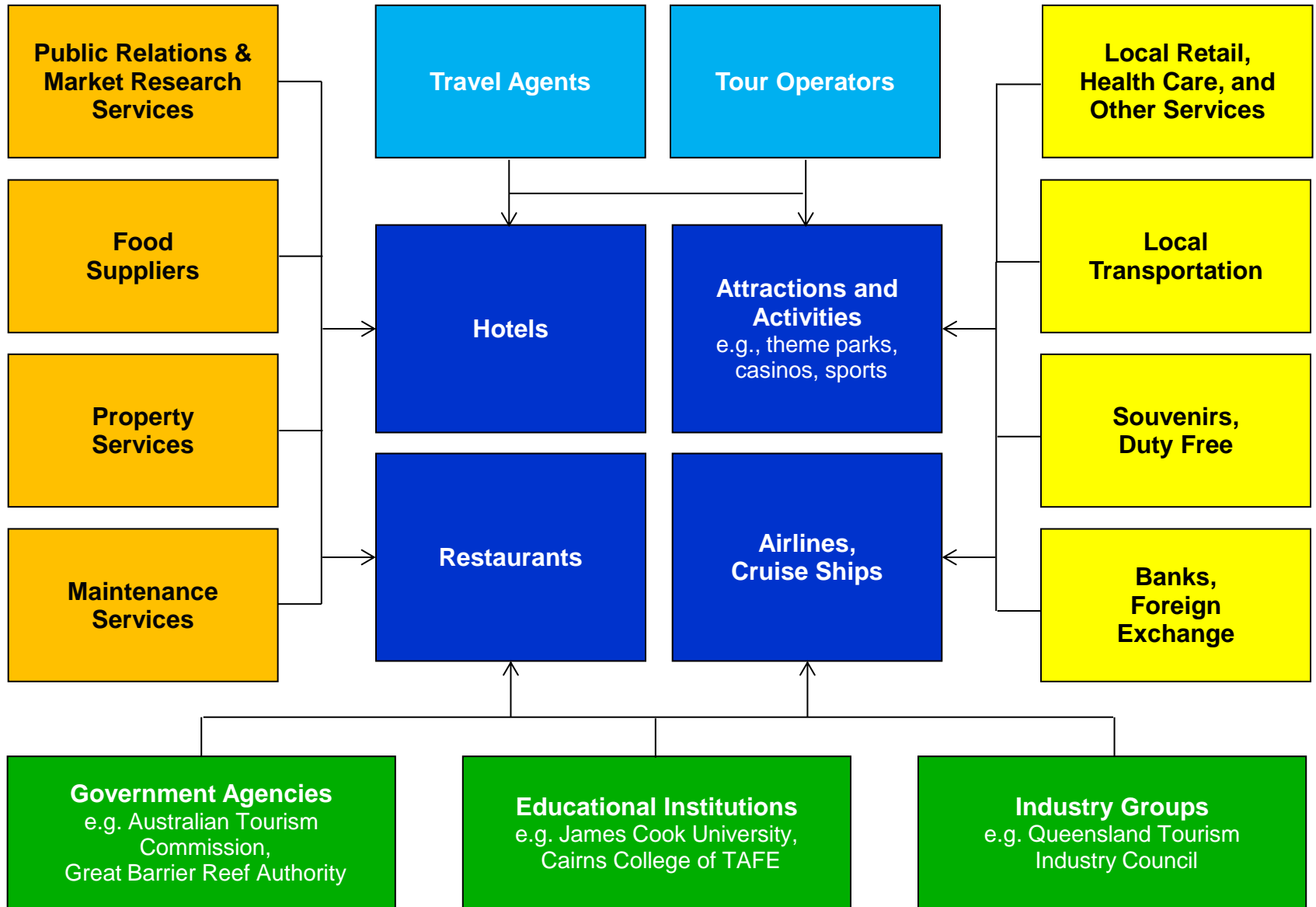
Quality of the Business Environment



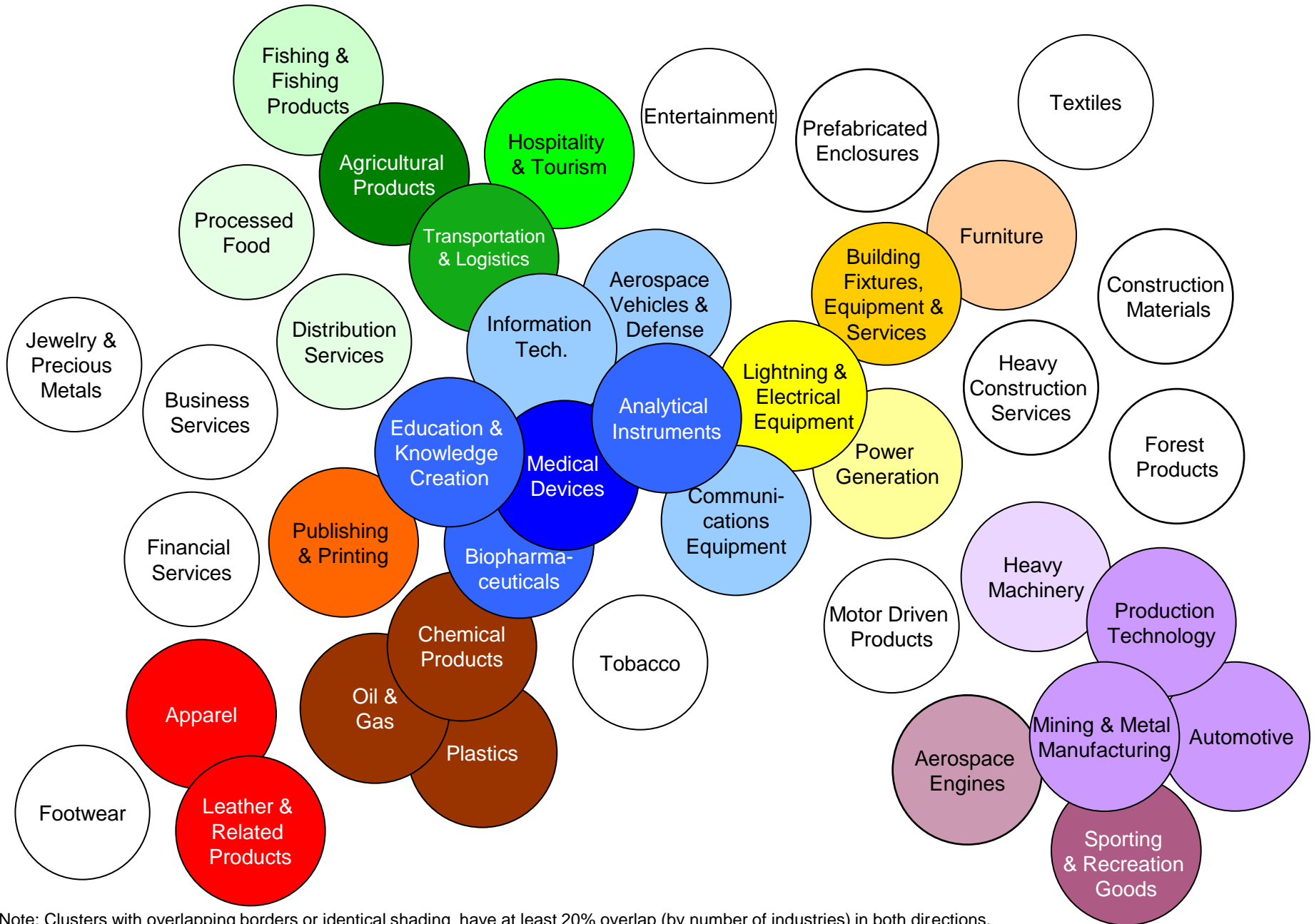
- **Many things matter** for competitiveness
- Successful economic development is a process of **successive upgrading**, in which the business environment improves to enable increasingly sophisticated ways of competing

Cluster Strength

Tourism Cluster in Cairns, Australia

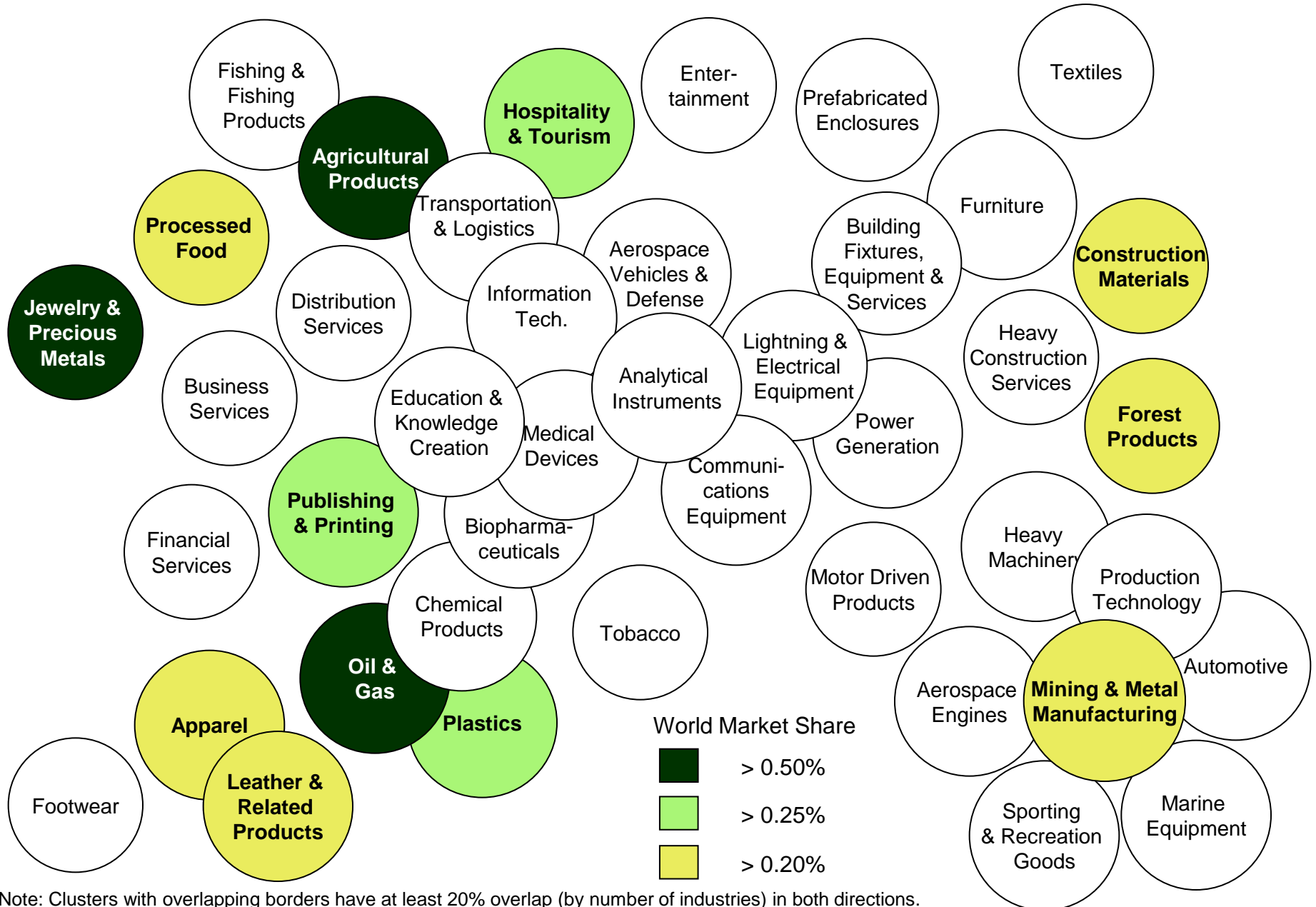


Related Clusters and Competitiveness



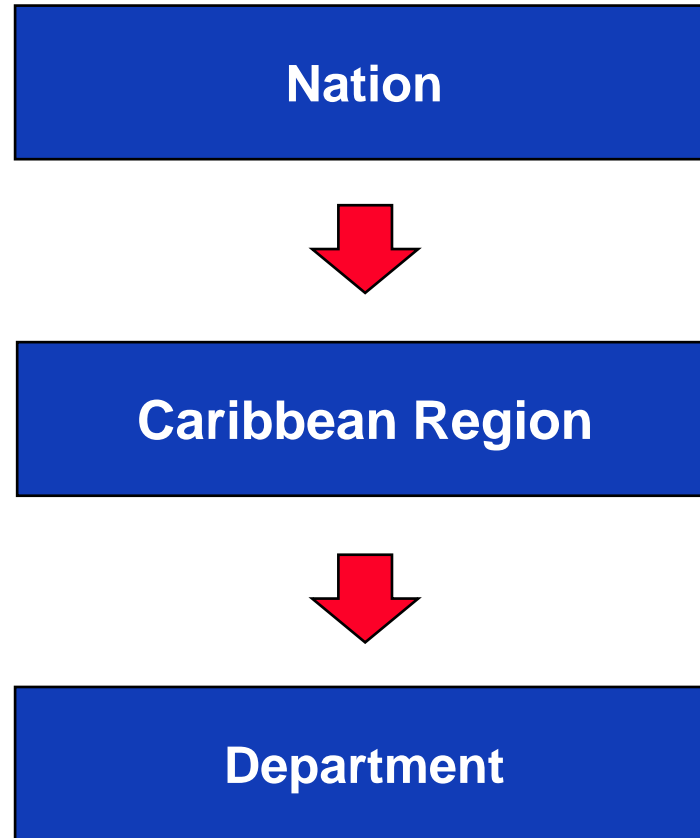
Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.

Colombia's Share of World Exports by Cluster, 2010



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Geographic Influences on Competitiveness in the Caribbean Region of Colombia

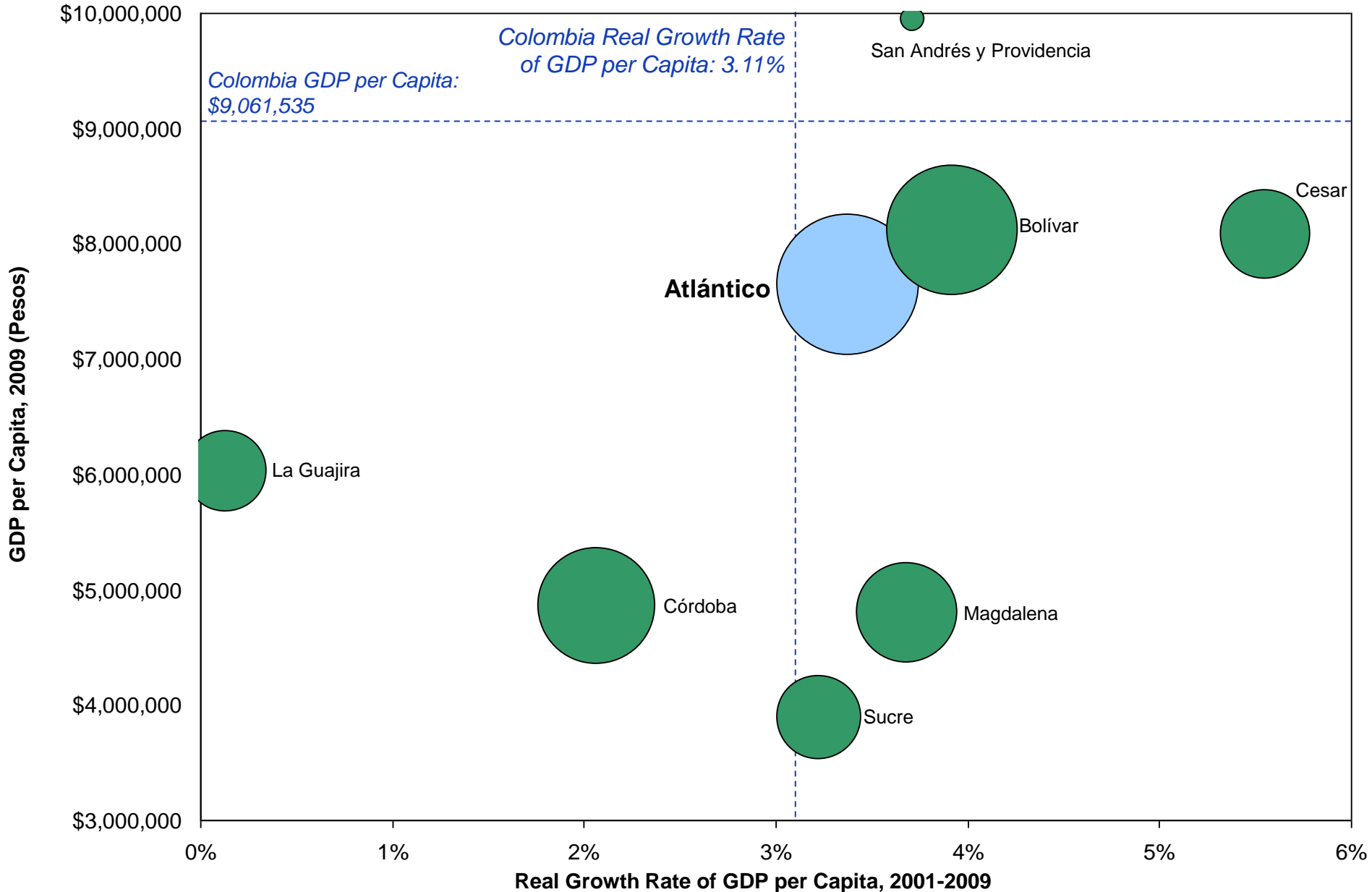


Regions and Competitiveness

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)

Prosperity Performance

Colombia Caribbean Departments, 2009



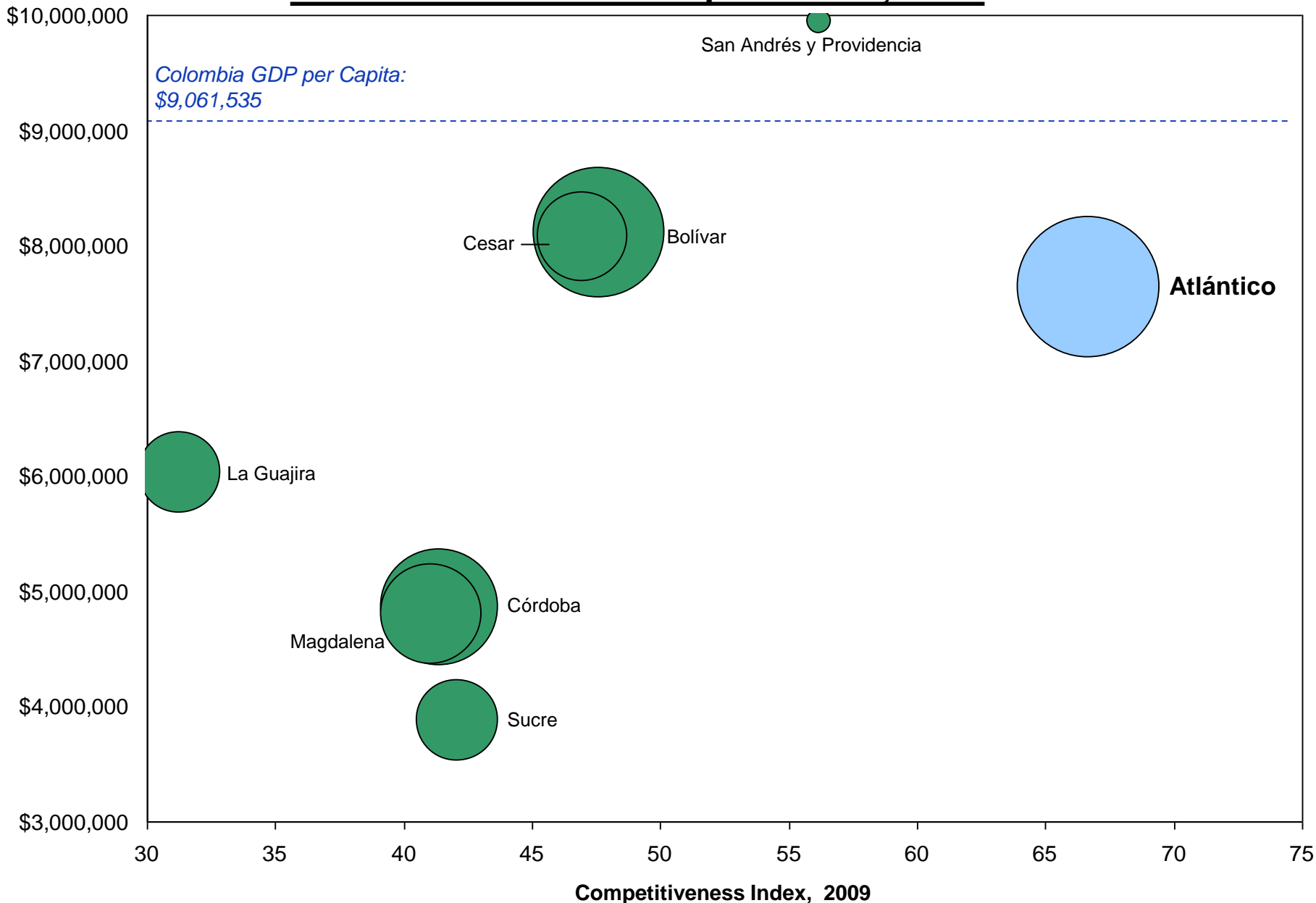
Data source: Banco de la República. Note: GDP in constant 2005 Colombian Pesos (\$); bubble size proportional to department population.

Regions and Competitiveness

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**

Competitiveness Index Performance

Colombia Caribbean Departments, 2009

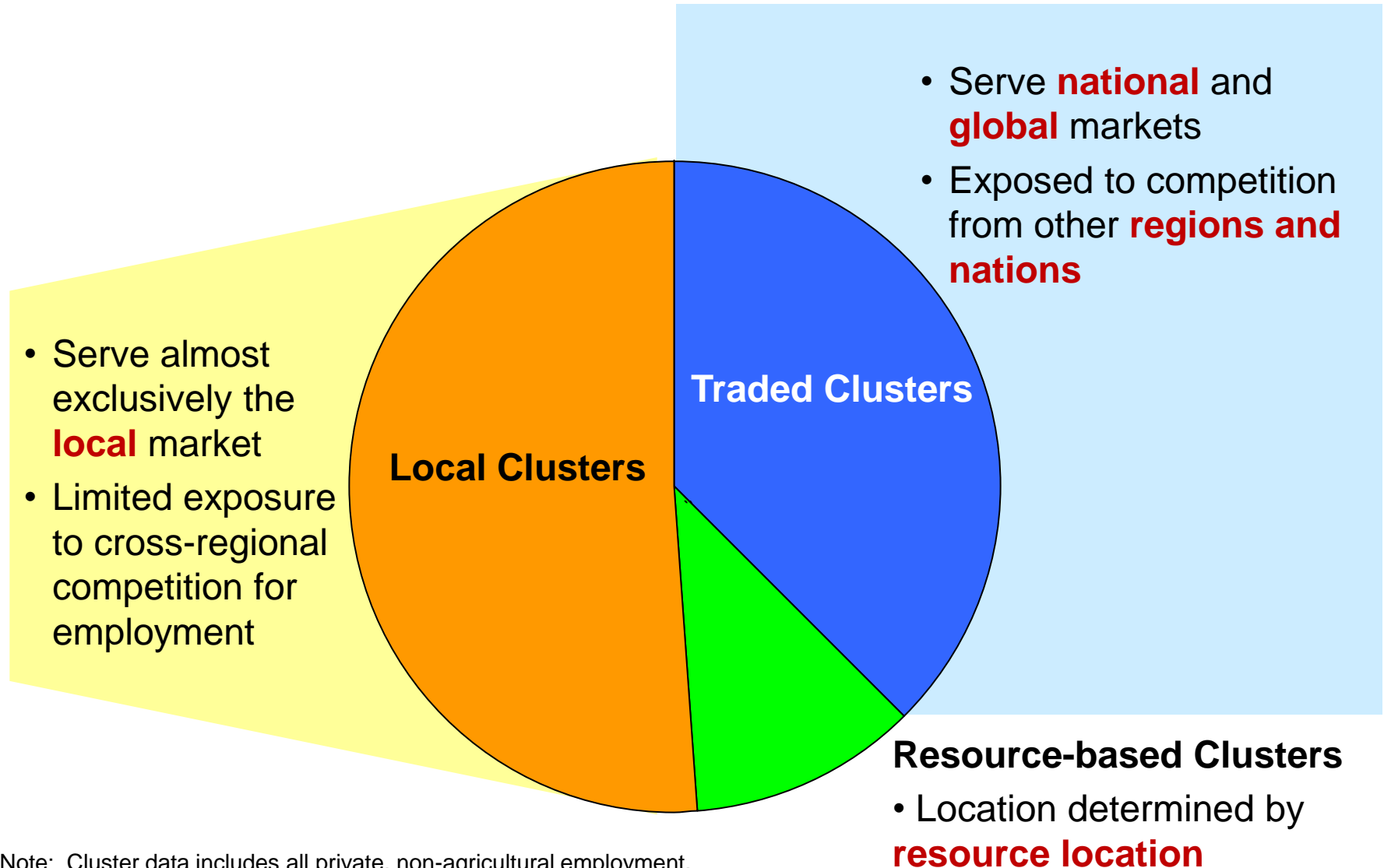


Data sources: Banco de la República, CEPAL. Note: GDP in constant 2005 Colombian Pesos (\$); bubble size proportional to department population.

Regions and Competitiveness

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- Regions **specialize** in different sets of clusters

Composition of Regional Economies

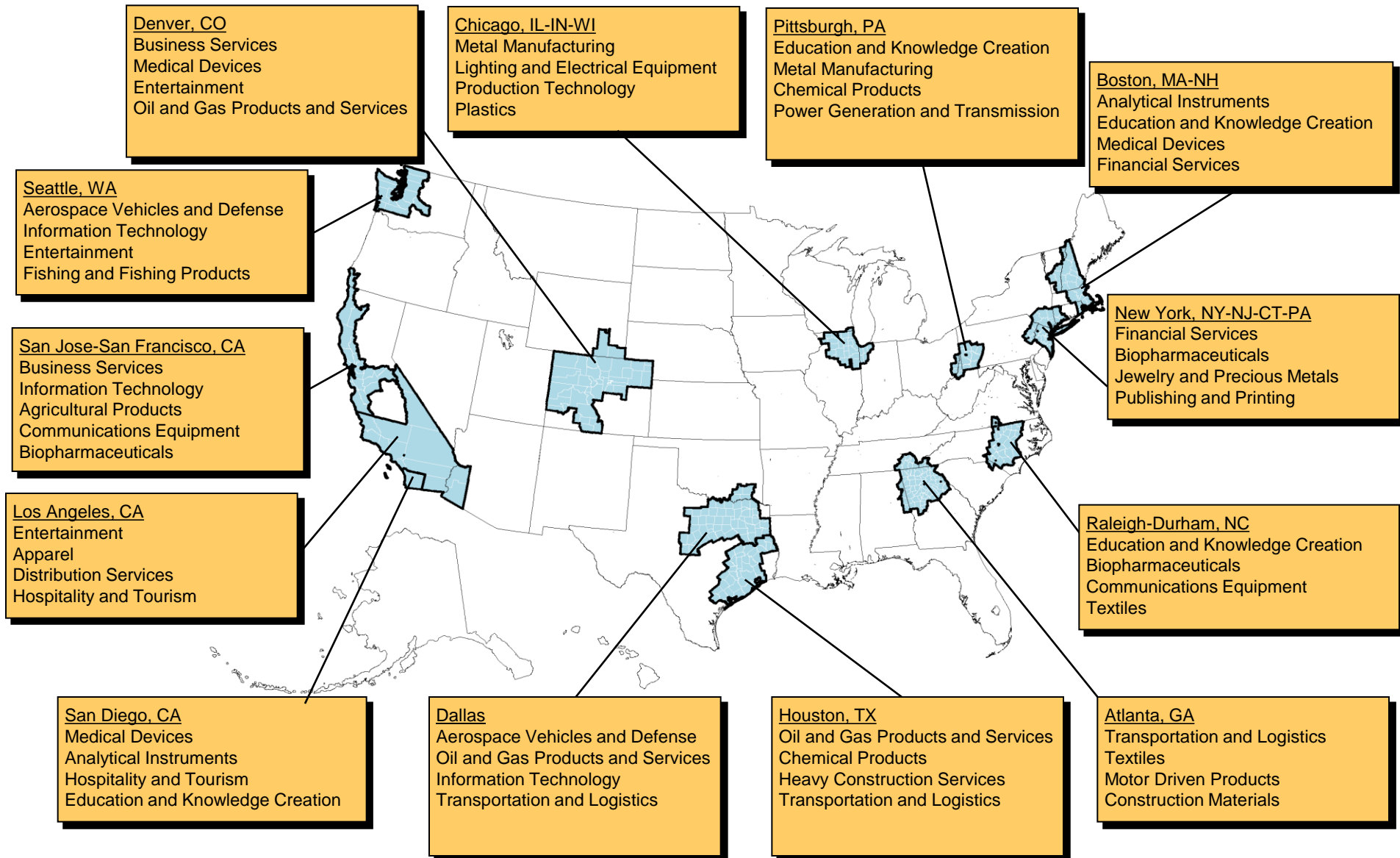


Note: Cluster data includes all private, non-agricultural employment.

Source: Michael E. Porter, Economic Performance of Regions, Regional Studies (2003); Updated via Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School (2008)

Specialization of Regional Economies

Leading Traded Clusters by U.S. Economic Area, 2008



Source: Prof. Michael E. Porter, Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School; Richard Bryden, Project Director.

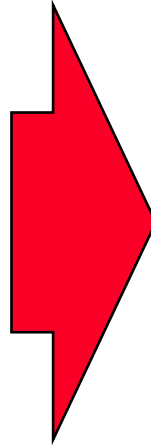
Regions and Competitiveness

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Regions **specialize** in different sets of clusters
- **Cluster strength** strongly impacts regional performance

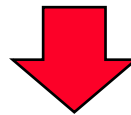
Strong Clusters Drive Regional Performance

Research Findings

- Presence of **strong clusters**
- **Breadth** of industries within each cluster
- Strength in **related clusters**
- Presence of a region's clusters in **neighboring regions**



- **Job** growth
- Higher **wages**
- Higher **patenting** rates
- Greater **new business** formation, growth and survival

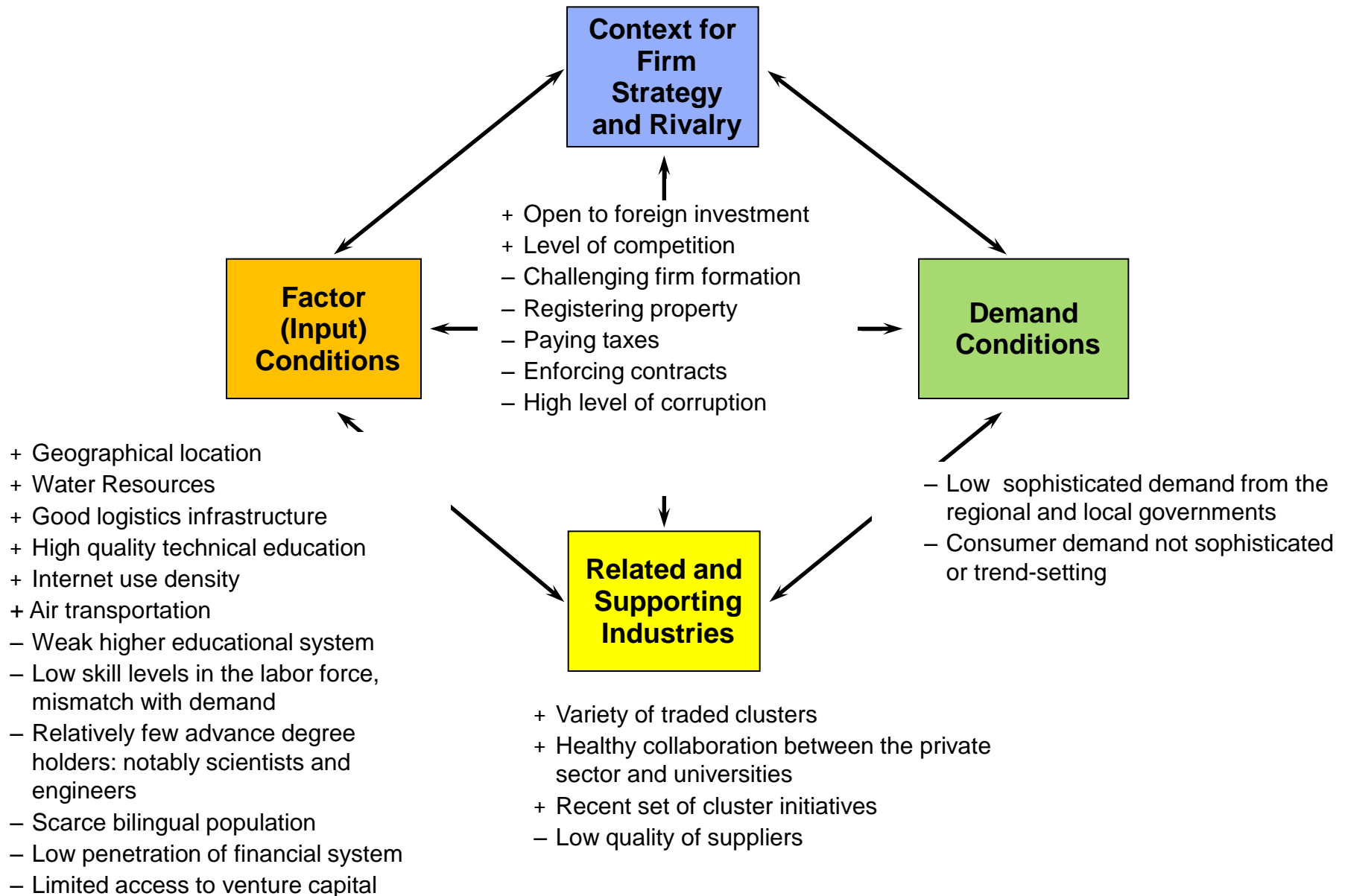


- Build on the region's **existing** and **emerging** clusters rather than chase hot fields
- Economic diversification usually occurs **within clusters** and **across related clusters**

Regions and Competitiveness

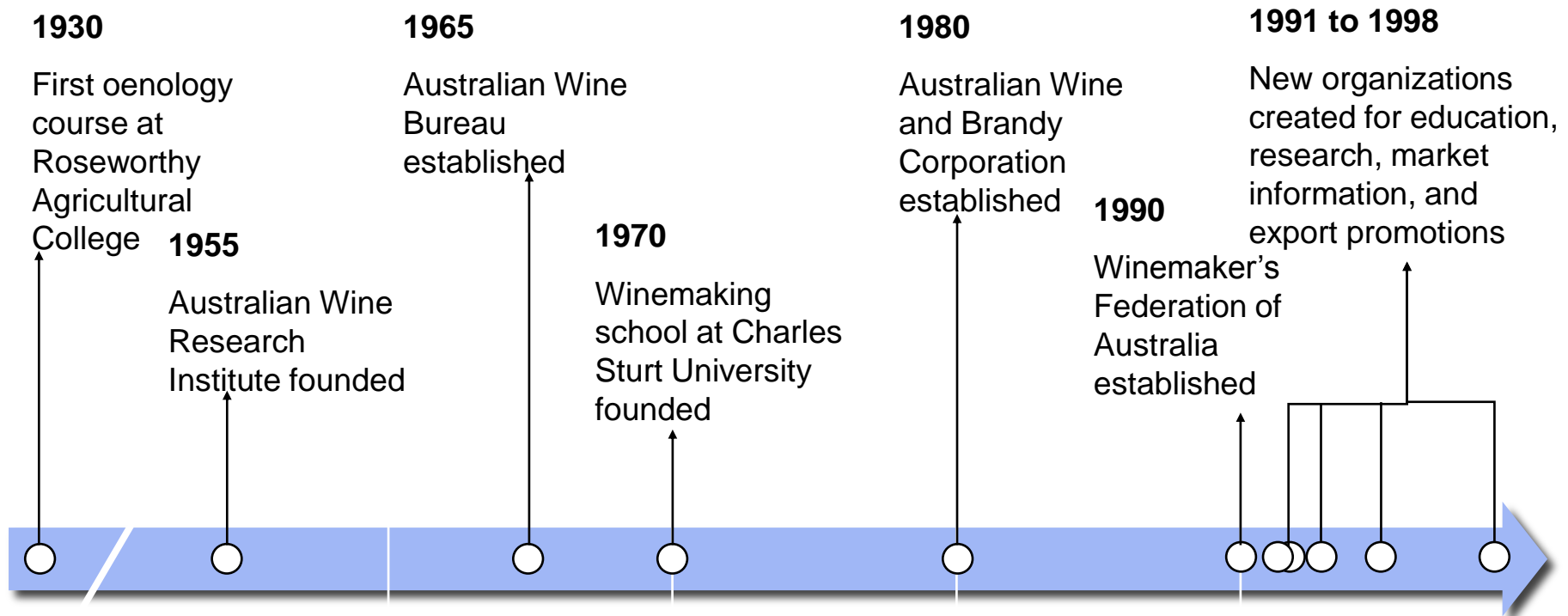
- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Regions **specialize** in different sets of clusters
- **Cluster strength** directly impacts regional performance
- Each region needs its own distinctive **competitiveness strategy and action agenda**
 - Business environment improvement
 - Cluster upgrading

Atlántico's Business Environment: Assessment



How Clusters Emerge and Develop

The Australian Wine Cluster



1950s

Import of European winery technology

1960s

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

1970s

Continued inflow of foreign capital and management

1980s

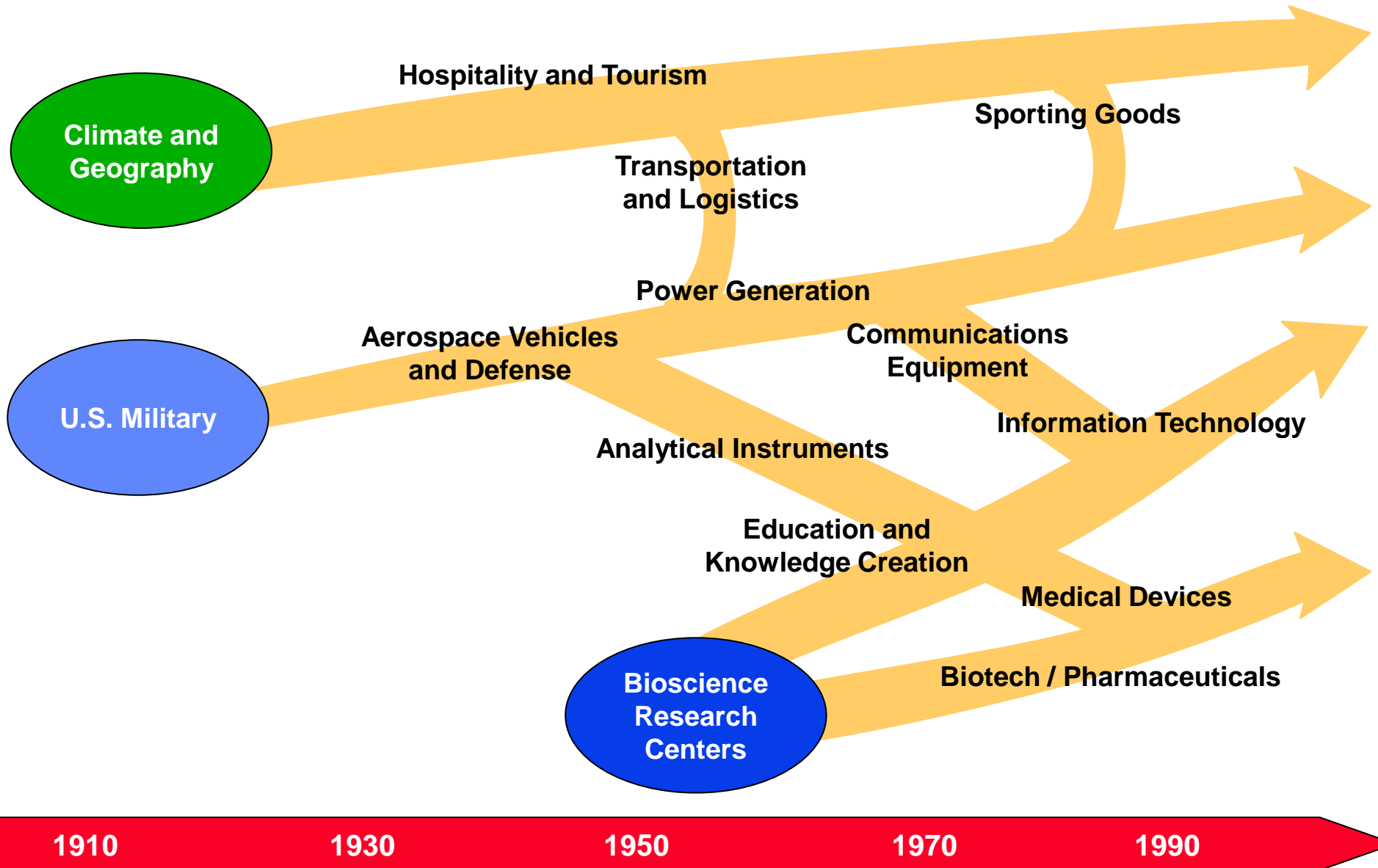
Creation of large number of new wineries

1990s and 2000s

Surge in exports and international acquisitions

The Evolution of Regional Economies

San Diego



Harnessing the New Process of Economic Development

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

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 private sector organizations

Creating a Regional Economic Strategy

Regional Value Proposition

- What is the **distinctive competitive position** of a geographic area given its location, legacy, existing strengths, and potential strengths?
 - What unique advantage as a business location?
 - For what types of activities and clusters?
 - And what roles with the surrounding regions, nation, and the broader world?

Developing Unique Strengths

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

Achieving and Maintaining Parity with Peers

- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer locations?

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

Improving the Business Environment of Atlántico

Action Items

1. Reduce unnecessary **costs of doing business**
2. Establish **training programs** that are aligned with the needs of business
3. Prioritize **infrastructure investments** on the most leveraged areas for productivity and economic growth
4. Protect and enhance the department's **higher education** and **research** institutions
5. Relentlessly improve the public **education** system, the essential foundation for productivity in the long run
6. Design all policies to support **new company formation** in the department
7. Improve access to **credit** and **venture capital**

Clusters as a Tool for Competitiveness Policy

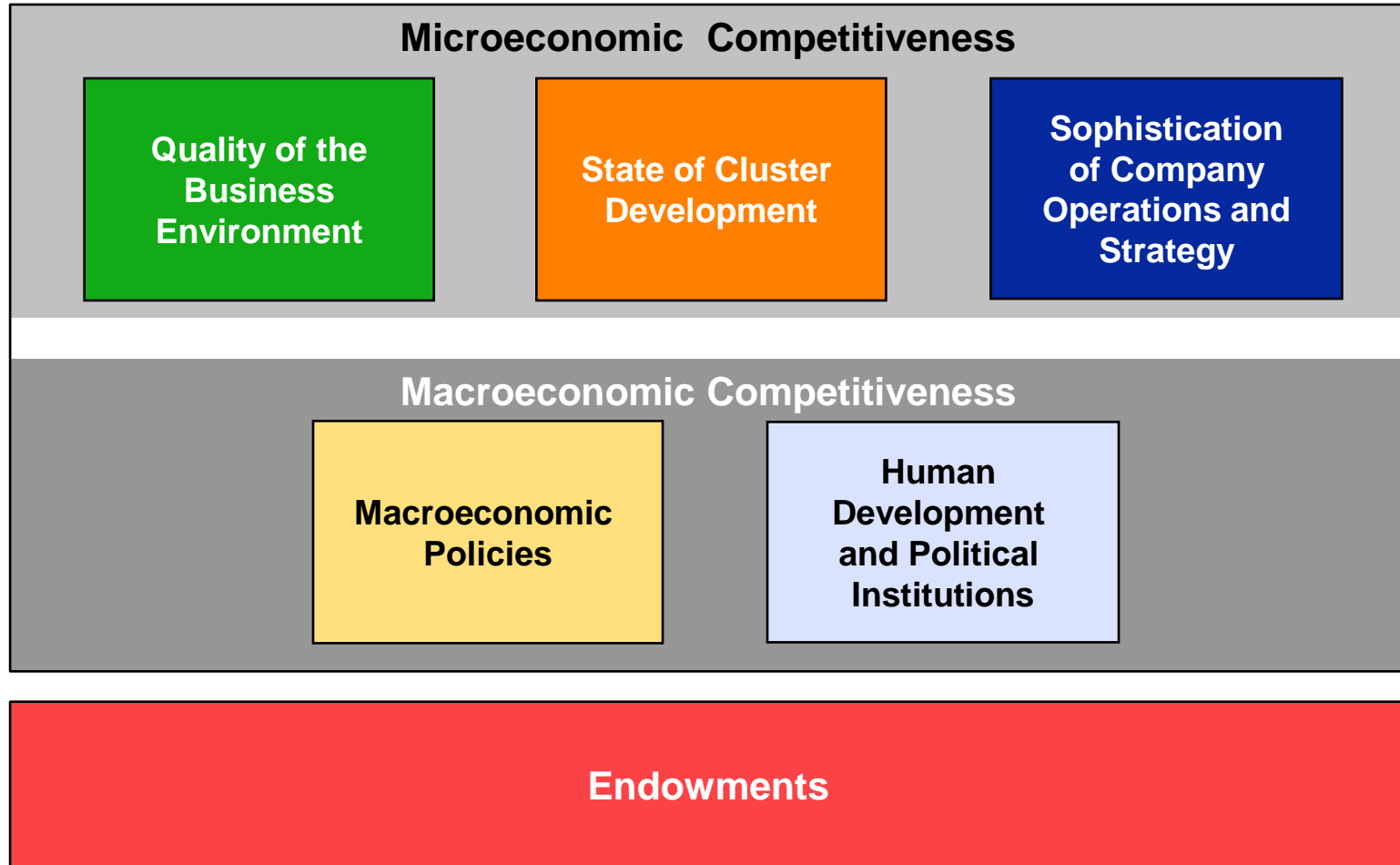
- A forum for **collaboration** between the private sector, trade associations, government, educational, and research institutions
- Brings together **firms of all sizes**, including SME's
- Creates a **mechanism** for **constructive** business-government dialog
- A tool to identify **problems** and **action recommendations**
- A vehicle for investments that strengthen **multiple firms/institutions** simultaneously
- Fosters **greater competition** rather than distorting the market
- Enhances the efficiency and effectiveness of **traditional economic policy** areas, such as training, R&D, export promotion, FDI attraction, etc.

Agenda

I. Regional Competitiveness: The New Learning

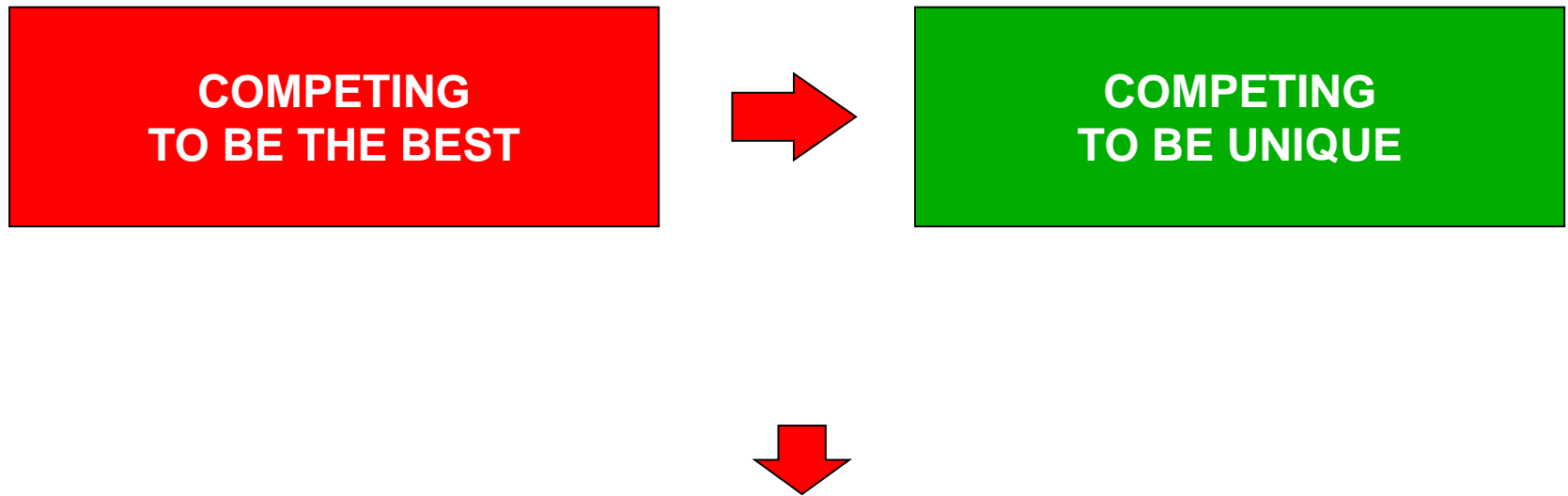
II. The Role of Business

What Determines Competitiveness?



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Thinking Strategically



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

What Creates a Successful Strategy?

- A **unique value proposition** compared to other organizations
- A **distinctive value chain** tailored to the value proposition
- Making clear tradeoffs, and choosing what **not to do**
- Choices across the value chain that **fit together and reinforce each other**
- **Strategic continuity**, with continual improvement in realizing the strategy

Strategic Positioning

Nespresso

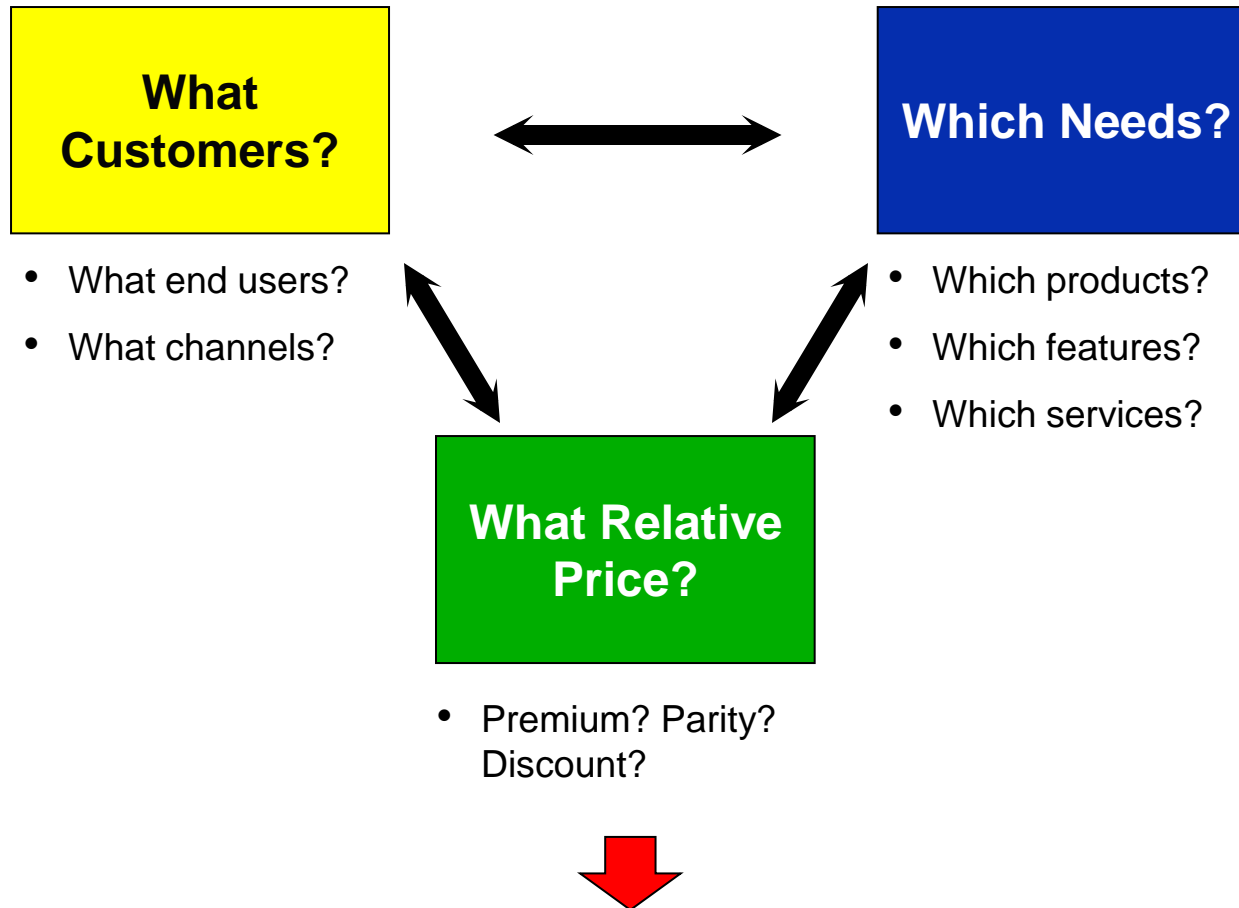
Value Proposition

- Uniquely high quality, easy to prepare single-serve espresso coffee at a premium price
- Demanding, convenience-sensitive, affluent consumers, and offices

Distinctive Activities

- Extra-high quality ground coffee in 16+ varieties
- Individually proportioned capsules for freshness and ease of use
- Tailored espresso machines manufactured by high-end machine vendors
- Capsules sold only online or through about 200 coffee boutique shops in major cities, not in mass market food channels
- Nespresso Club to achieve high levels of communication with customers
- Focused image-oriented media advertising

Defining the Value Proposition



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

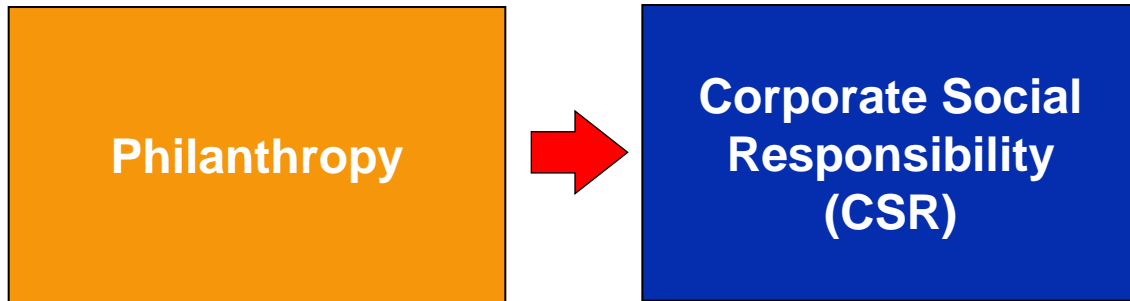
The Role of a Company in Its Communities



Philanthropy

- Donations to worthy social causes

The Role of a Company in Its Communities



- Donations to worthy social causes

- Good corporate citizenship and compliance with community standards
- “Sustainability”

The Role of a Company in Its Communities



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 sells and operates

- Create **economic value** by creating **societal value**
 - What is good for the community is good for business
- Use **capitalism** to address social problems
- All profit is **not equal**. Profit involving shared value enables society to advance and companies to grow faster



- Incorporating societal issues into strategy and operations is **the next major transformation** in management thinking

Levels of Shared Value

- Reconceiving **customer needs, products, and markets**
- **Redefining productivity** in the value chain
 - How the organization conducts its business
- Enabling **local cluster development**

Creating Shared Value in Products and Markets

Novo Nordisk in China

Diabetes training programs for physicians in partnership with government, NGOs, and opinion leaders to promote the latest thinking on diabetes prevention, screening, treatment, and patient communication

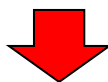
- The program has **trained 55,000 physicians** to date, each treating approximately 230 patients

Diabetes education programs for patients focusing on prevention, lifestyle changes, and effective use of insulin products

- **Television, radio, and print media campaigns** about diabetes prevention, detection, and treatment
- **Changing Diabetes Bus** program to raise patient awareness and provide on-site advice
- **NovoCare telephone hotline** and **NovoCare Club** providing ongoing support to members

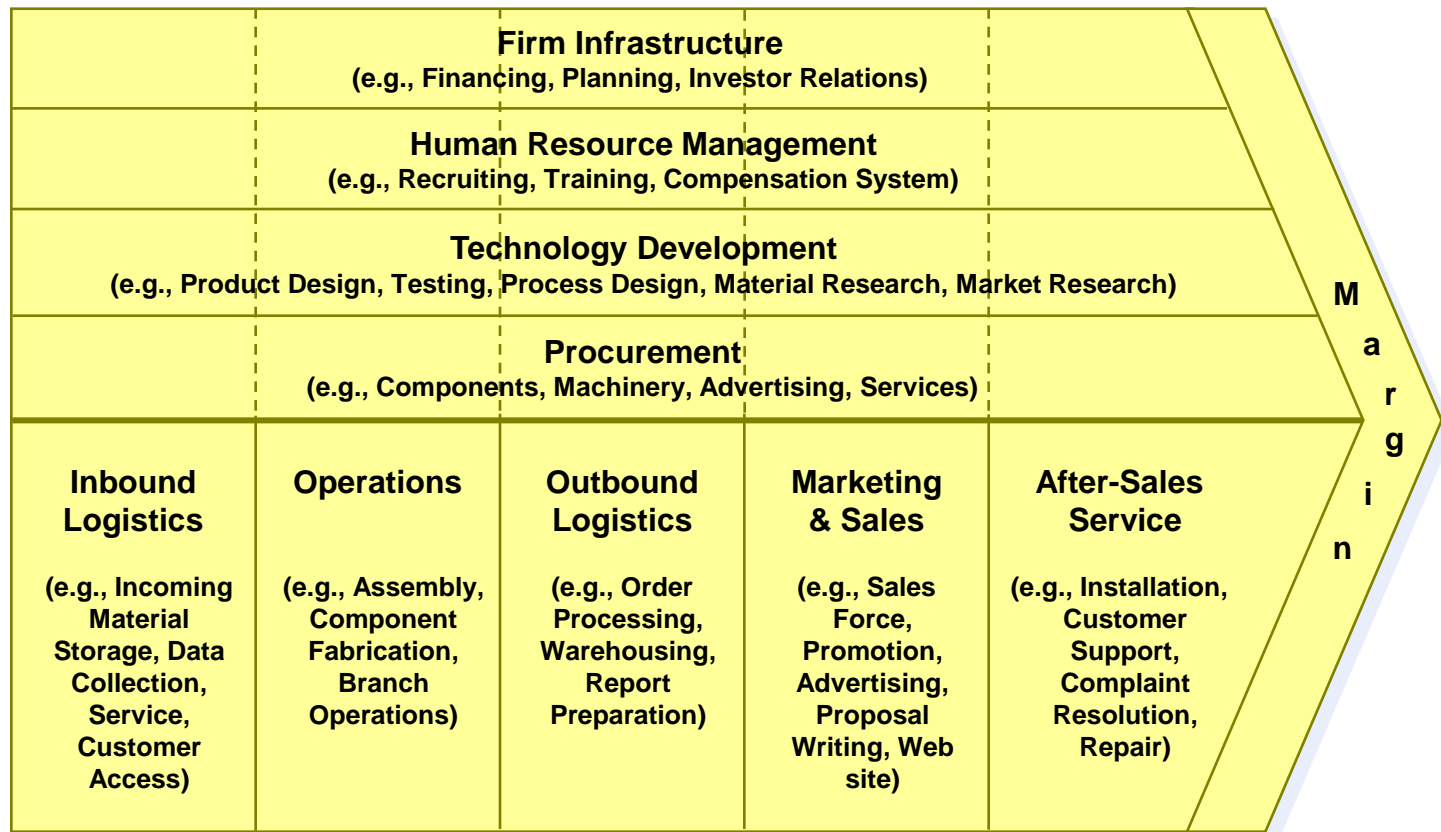
Product design that reflects Chinese patient demographic and culture

- Formulation with **appropriate insulin dosage** to reflect lighter body weight
- **Product name** Nuo He Ling means “commitment, harmony, and effectiveness” in Chinese



- Since 1994, Novo Nordisk **market share increased from 0% to 63%** and China became the Company's **third largest market**, with **revenues of \$935 million** in 2011
- Company efforts saved China **140,000 life years** by 2010 and **\$2,317 of total lifetime costs per patient**

Redefining Productivity in the Value Chain



- Purchasing
- Energy use
- Resource use
- Logistical efficiency
- Employee productivity
- Location of facilities / supply chain

Cluster Development in the Company's Major Locations

- A strong local cluster improves **company growth and productivity**
 - Local suppliers
 - Supporting institutions and infrastructure
 - Related businesses
- **Companies**, working collaboratively, can catalyze major improvements in the cluster and the local business environment



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

The Role of Business in Competitiveness

Action Agenda

Improving Skills

- Create or expand an **apprentice program** to train workers to be employable by company and others
- Create or expand a **training program** to upgrade the skills and productivity of current or prospective employees
- Partner with a **community college, technical school, or university** to align its curriculum with the needs of business, and commit to hire a number of its graduates

Upgrading Supporting Industries

- Identify and increase sourcing from capable **local suppliers**
- **Mentor local suppliers** to upgrade their capabilities and make them more attractive partners
- Join consortia that help **small companies access** procurement contracts

The Role of Business in Competitiveness

Action Agenda

Supporting Innovation and Entrepreneurship

- Participate in **research collaboratives** in company's field that build businesses of the future
- **Invest in or incubate promising startups** related to company's business

Shifting the Business-Government Relationship

- Advocate **business-wide improvements** rather than lobby for special interests

Increasing Overall Cluster Strength

- Participate in a **cluster competitiveness** initiative in your field

The Purpose of Business

- There is an opportunity to **transform thinking and practice** about the role of the corporation in society
- Shared value gives rise **to far broader approaches** to economic value creation
- Shared value thinking will drive the next wave of **innovation, productivity growth, 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 represents our best chance to **legitimize business again**

Summary and Next Steps

- The goal of economic strategy is to enhance **department's productivity**. This is the only way to create jobs, high income, and wealth in the long run
- Improving productivity does not just involve new public resources, but **using existing resources better**
- Economic strategy is non-partisan and about getting **results**
- Improving productivity demands that the private sector **engage government** and **vice versa**
- Improvements in competitiveness **take time** to produce results

Summary and Next Steps - Continued

- **Competitiveness** improvement is essential to take advantage of the FTA with the United States
- Adopt a **cluster-centric** economic development framework
- Utilize the **royalties** from mining and oil to invest in upgrading long term competitiveness
- Create a **clear strategy** for each department in collaboration with government and other stakeholders
- Strengthen the **organizational capacity** of each departmental competitiveness commission
- Engage the **private sector** more effectively in cluster development and improving the departmental business environment
- Embrace the **creating shared value** model as a way to engage business to addressing the social and environmental problems of the region
- Take advantage of opportunities for collaboration with **neighboring departments** to improve productivity in logistics, energy networks, higher education and other areas