

# Regional Competitiveness and the Role of Business

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*Encuentro de Comisiones Regionales de Competitividad  
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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](http://www.isc.hbs.edu)

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# Agenda

- I. Regional Competitiveness: The Next Stage for Colombia
- II. The Role of Business in Economic and Social Development

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# What is Competitiveness?

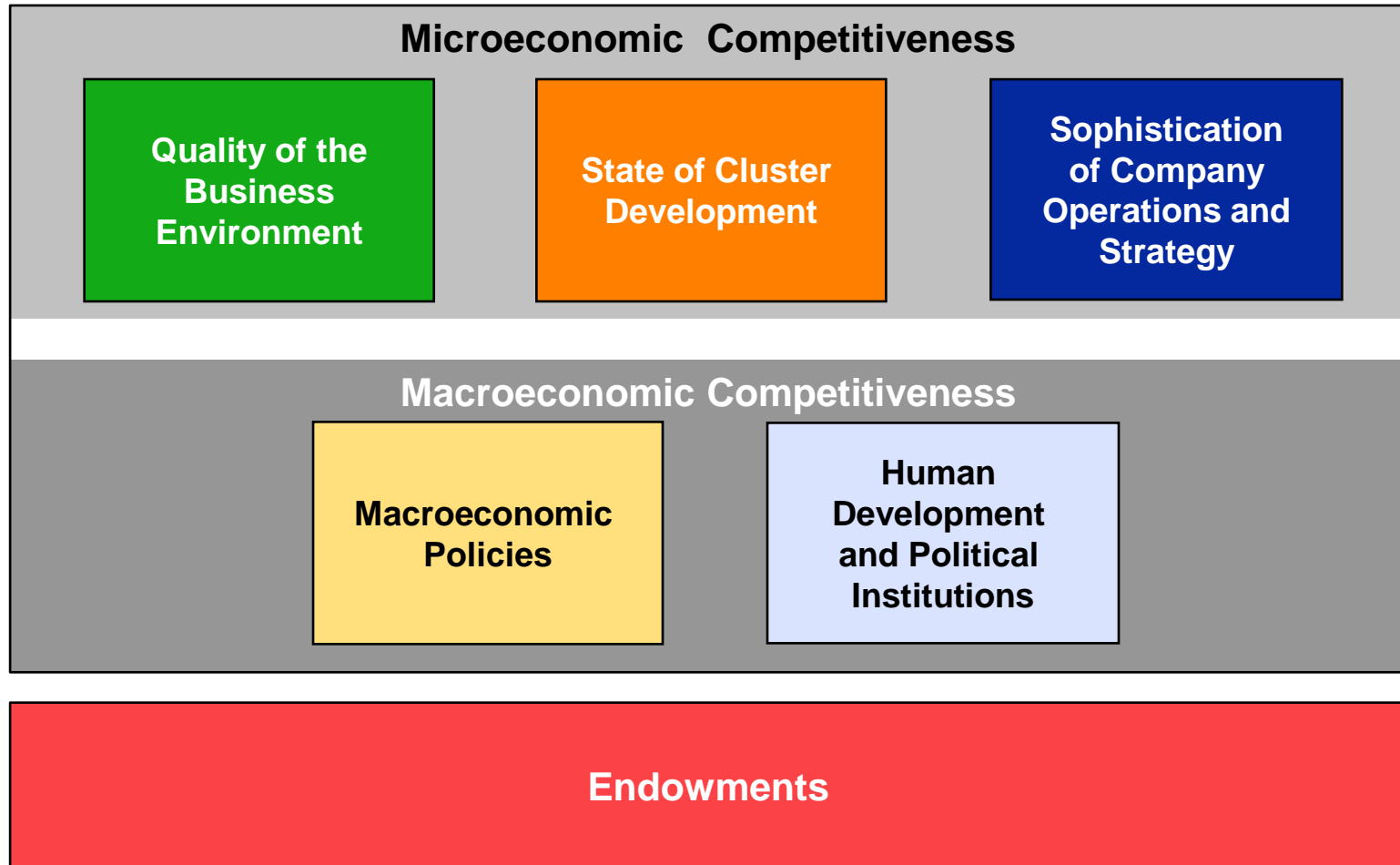
A nation or region is competitive to the extent that firms operating there are able to **compete successfully** in the global economy while supporting **rising wages and living standards** for the average citizen

- 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**



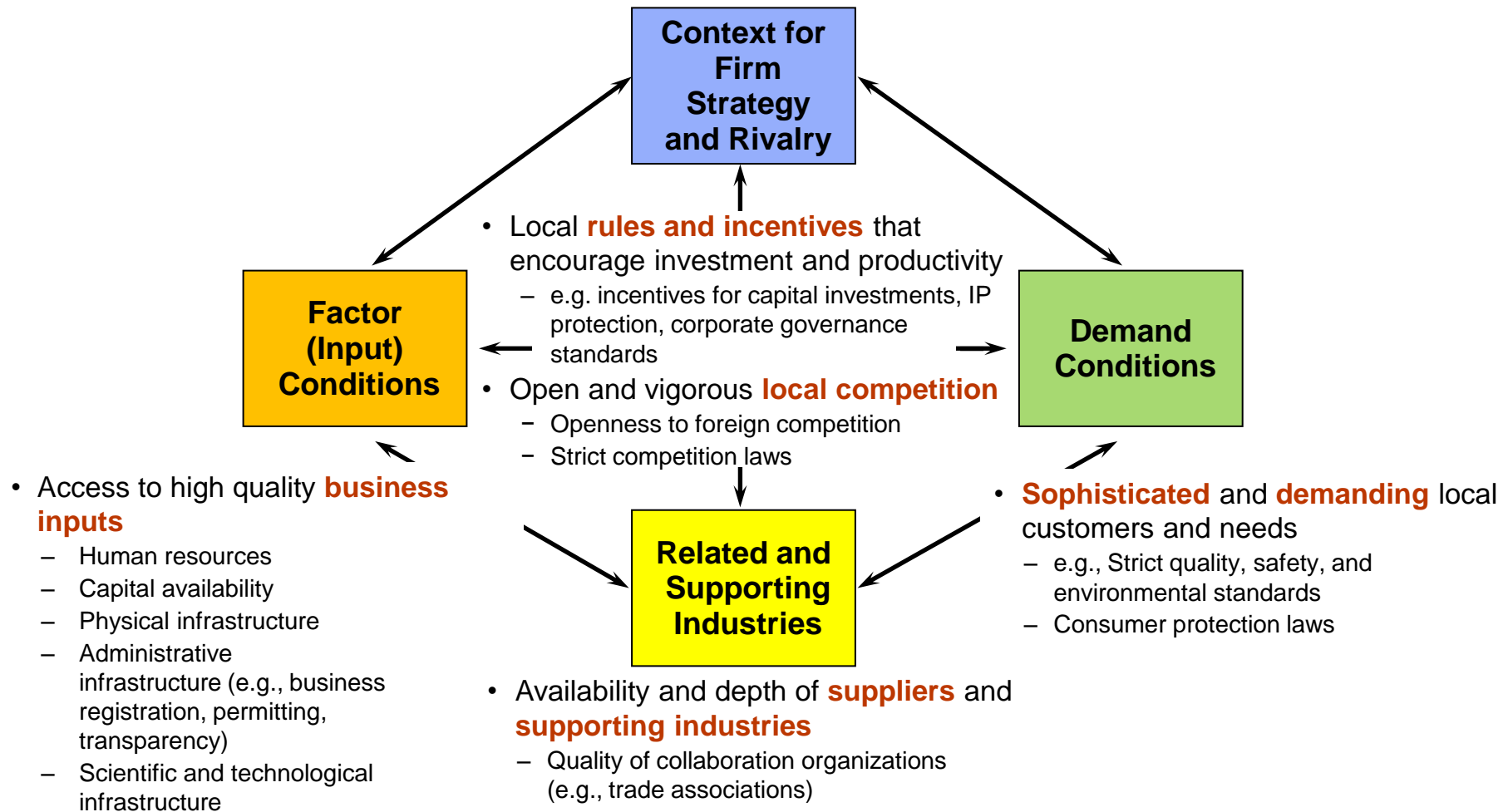
- Nations and regions compete to offer a **more productive environment for business**
- Competitiveness is **not a zero sum game**

# 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**

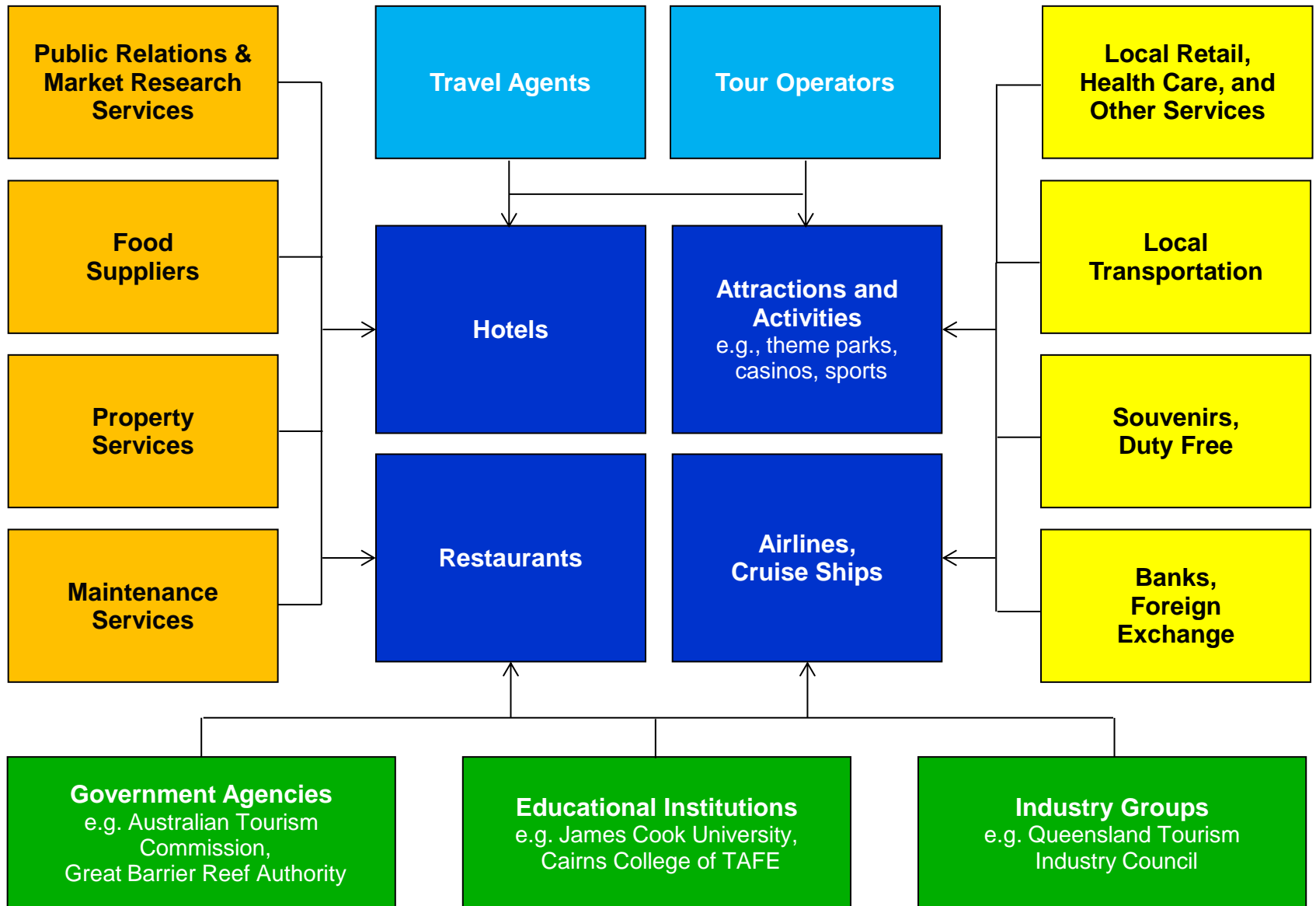
# Improving the Quality of the Business Environment



- **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

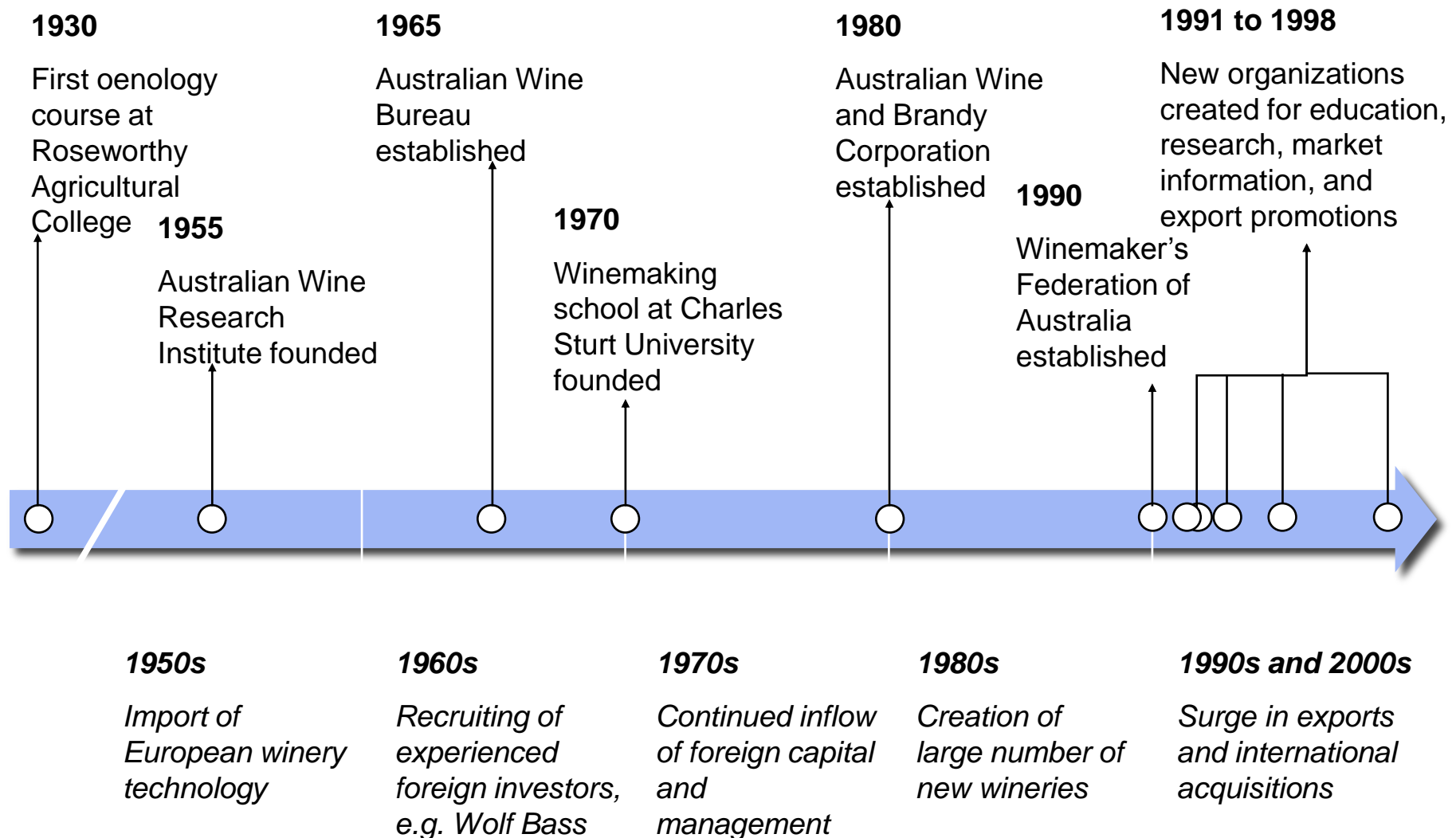
# Building and Upgrading Clusters

## Tourism Cluster in Cairns, Australia



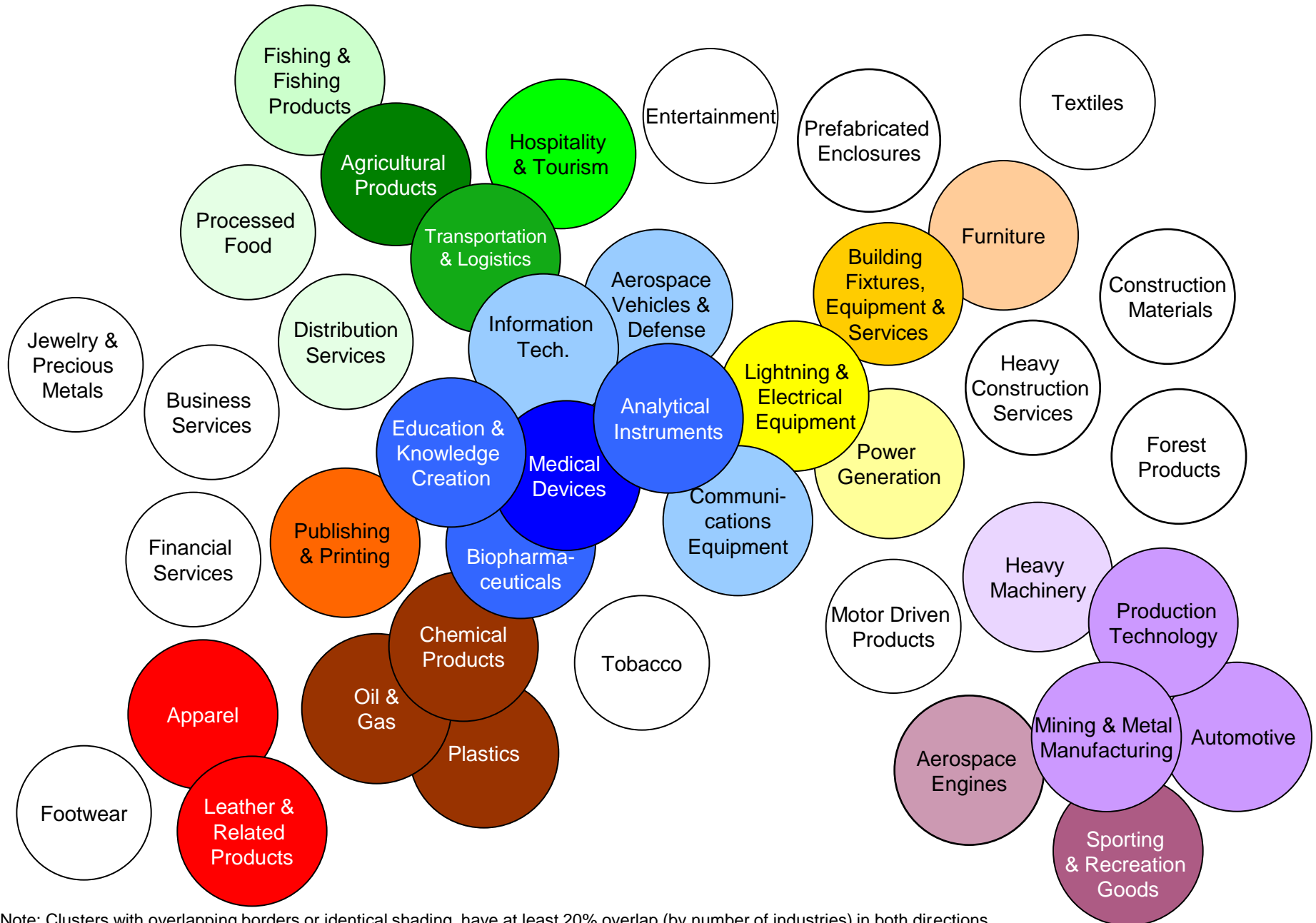
# How Clusters Emerge and Develop

## The Australian Wine Cluster



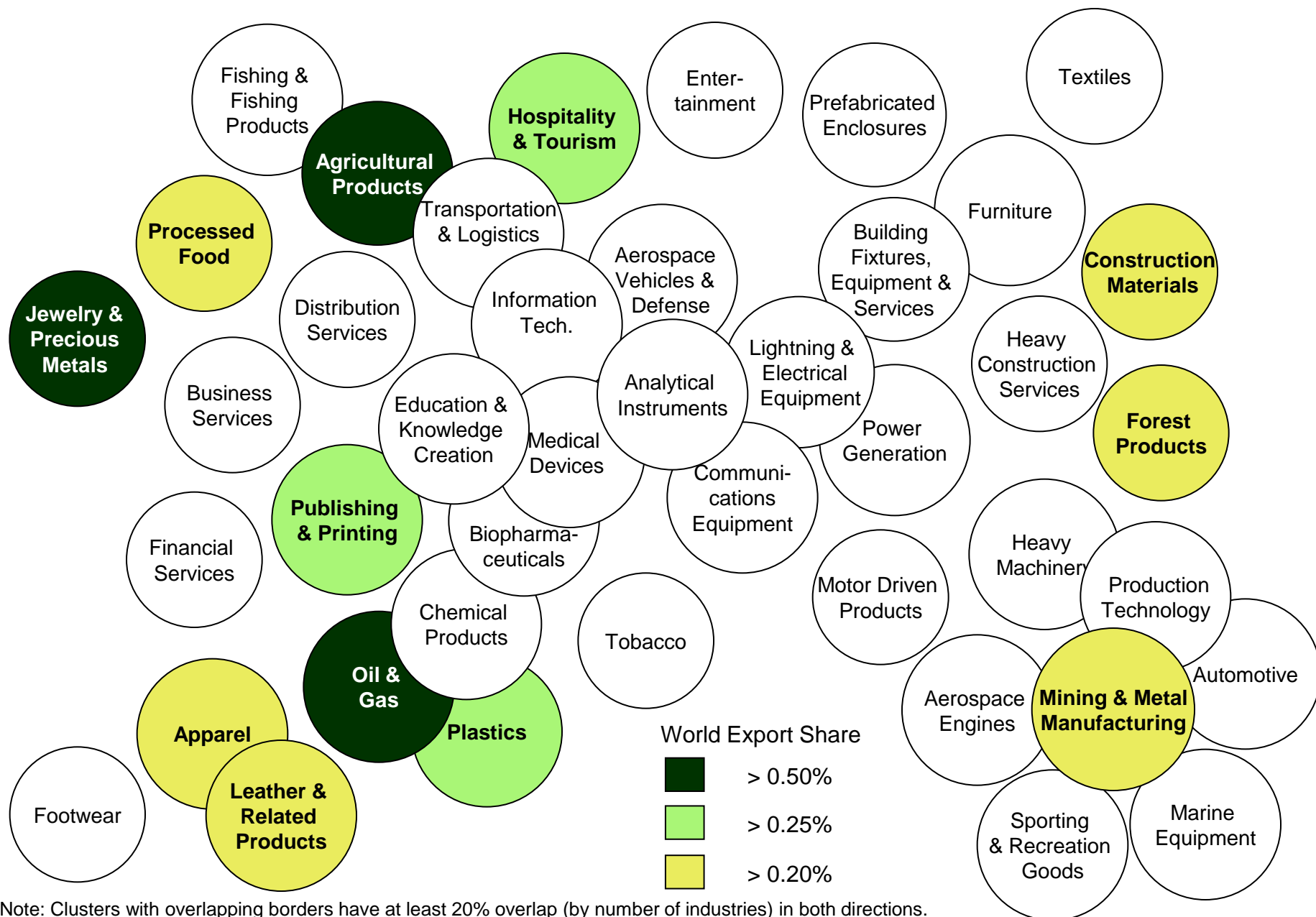


# Clusters and Economic Diversification



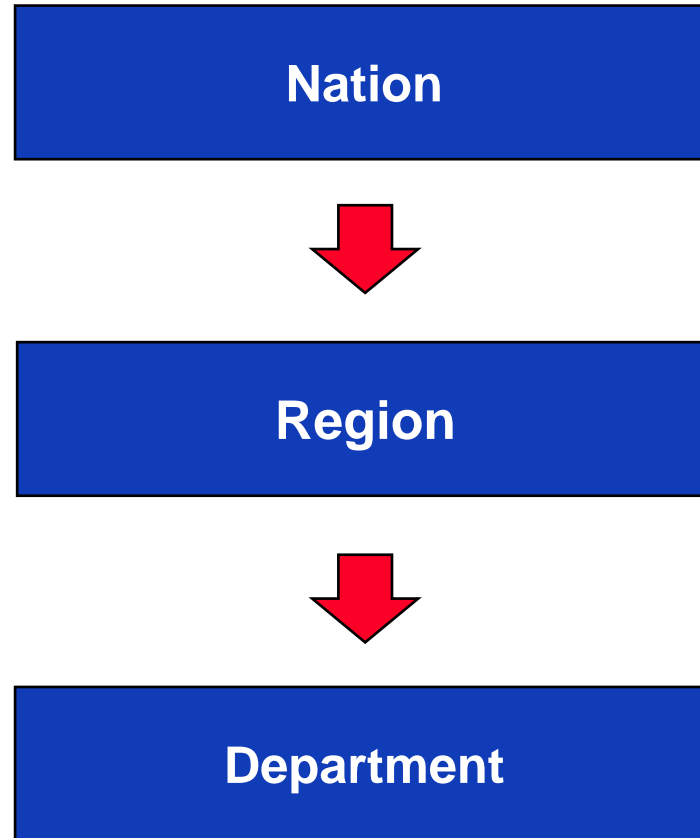
Note: Clusters with overlapping borders or identical shading have at least 20% overlap (by number of industries) in both directions.

# Colombia's Cluster Portfolio, 2010



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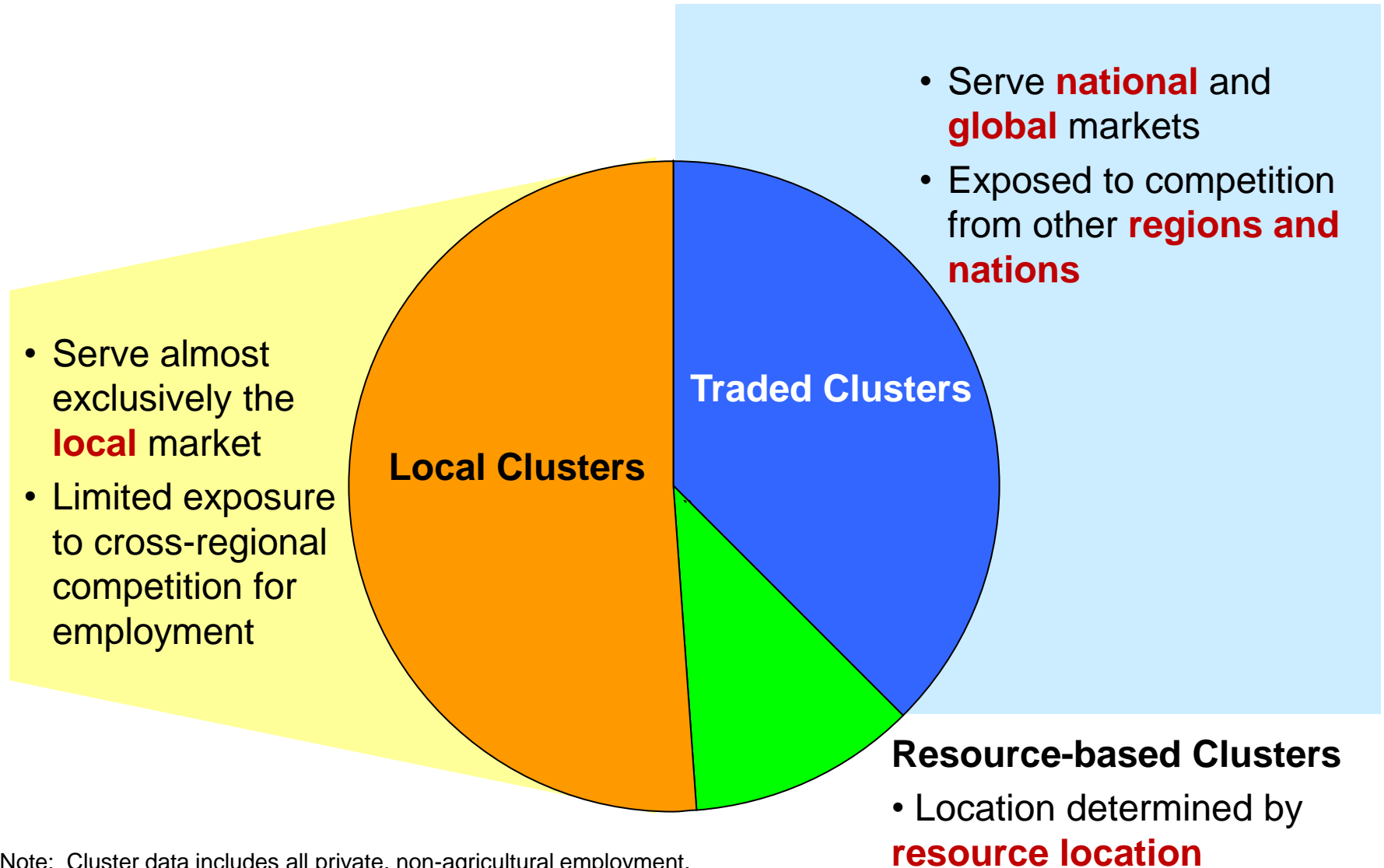
# Geographic Influences on Competitiveness



# 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

# Composition of Regional Economies

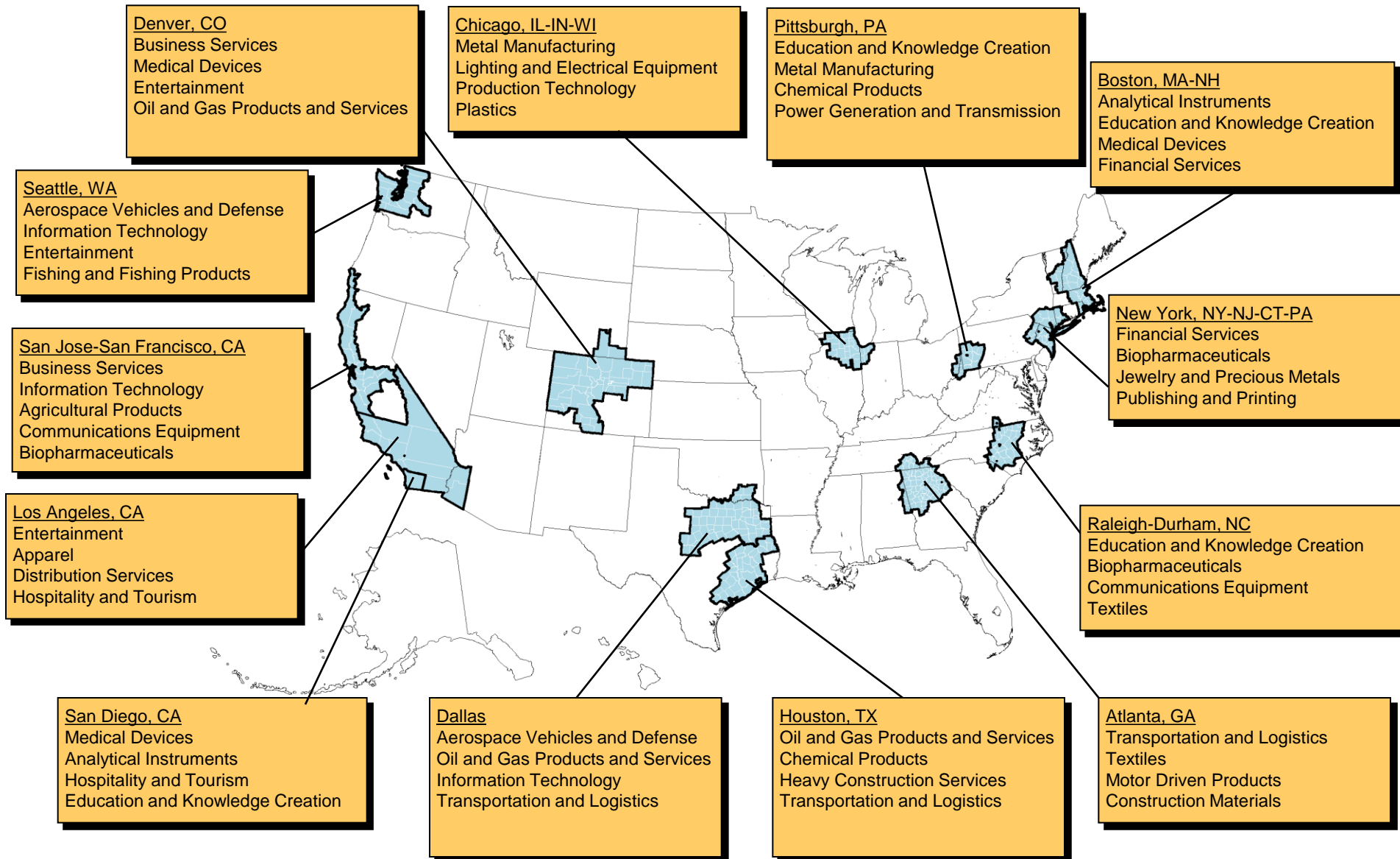


Note: Cluster data includes all private, non-agricultural employment.

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



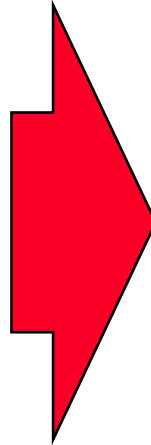
# Regions and Competitiveness

- 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

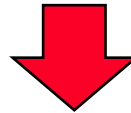
# Strong Clusters Drive Regional Performance

## 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**

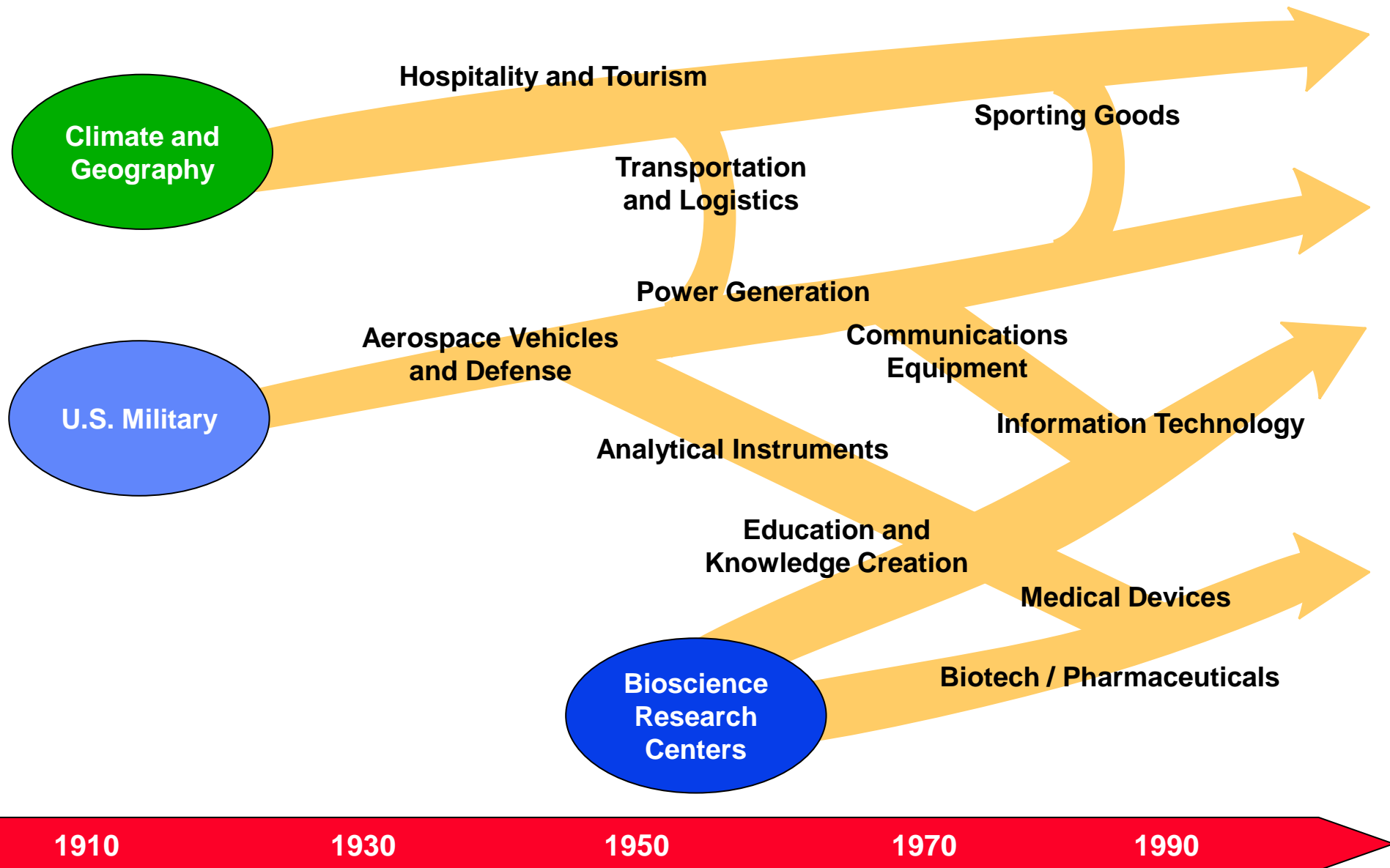


# Regions and Competitiveness

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- 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

# The Evolution of Regional Economies

## San Diego



# 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?

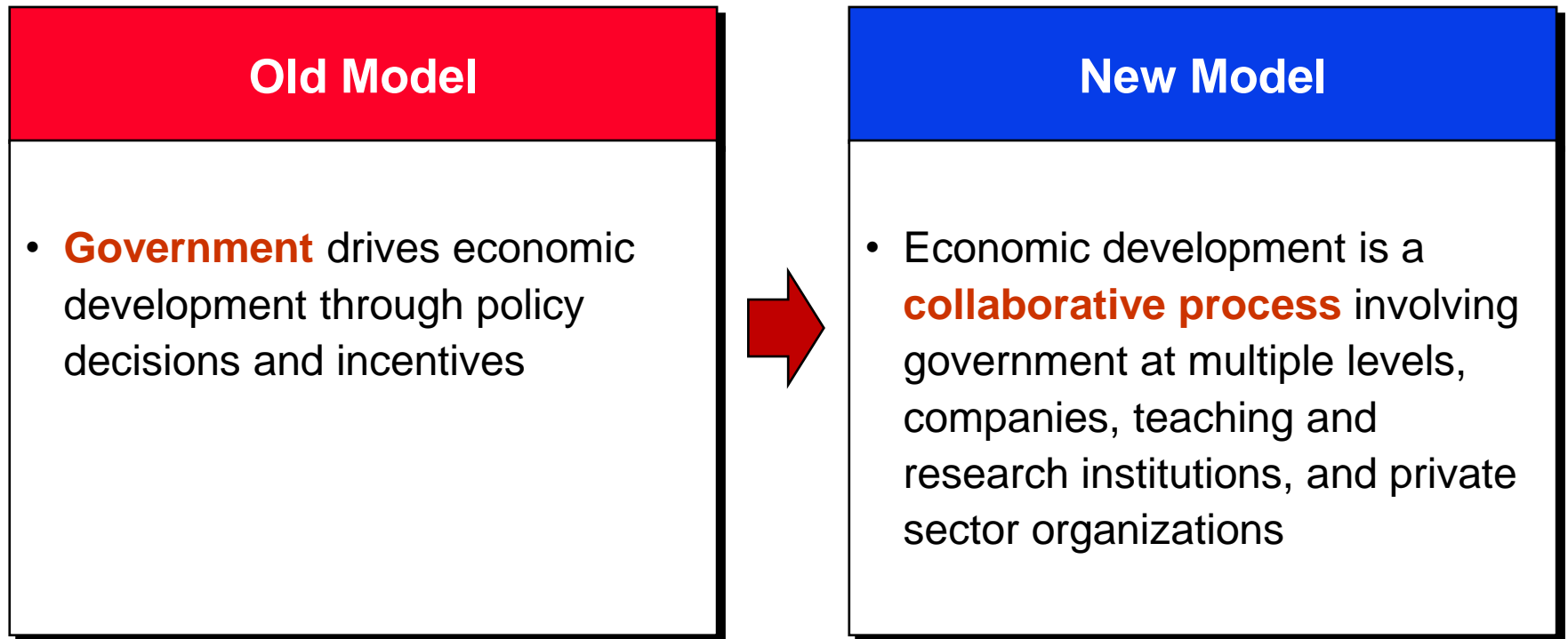
### Achieving and Maintaining Parity with Peers

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

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

# 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



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# Company Sophistication and Economic Development

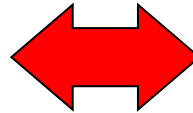
## Operational Effectiveness Is Not Strategy

### Operational Effectiveness

- Assimilating, attaining, and extending **best practices**

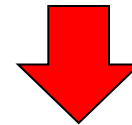


Do the **same thing better**



### Strategic Positioning

- Creating a **unique** and **sustainable** competitive position



Do things **differently** to achieve a **different purpose**

# Strategic Positioning

## IKEA, Sweden

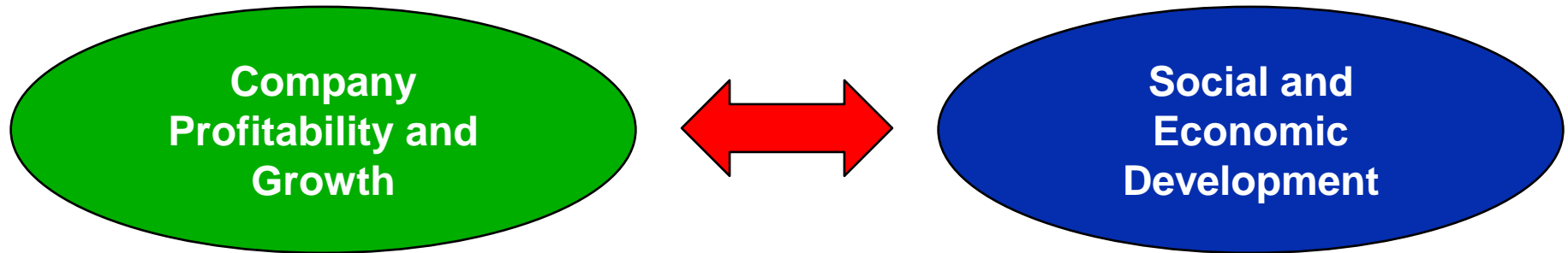
### Value Proposition

- Young, first time, or price-sensitive buyers with design sophistication
- Stylish, space efficient and compatible furniture lines and accessories at very low price points.

### Distinctive Activities

- Modular, ready-to-assemble, easy to ship furniture designs
- In-house design of all products
- Wide range of styles which are all displayed in huge warehouse stores with large on-site inventories
- Self-selection by the customer
- Extensive customer information in the form of catalogs, explanatory ticketing, do-it-yourself videos, and assembly instructions
- IKEA designer names attached to related products to inform coordinated purchases
- Suburban locations with large parking lots
- Long hours of operation
- On-site, low-cost, restaurants
- Child care provided in the store
- Self-delivery by most customers

# Business and Society: Why the Disconnect?



- Companies (and investors) have adopted a **narrow model** of economic value creation
  - Meeting **conventional** needs of **conventional** customers
  - Profit improvement through **downsizing**, **outsourcing**, **relocating**, and **globalizing**
  - Optimization within **traditional company boundaries**
  - Emphasis on **capital structure** instead of real value creation
  - Driving revenue through **acquisitions** instead of new business creation
  - Societal issues treated as **outside** the scope of business



- Huge **societal needs** go unmet
- **Growth** and **innovation** suffer



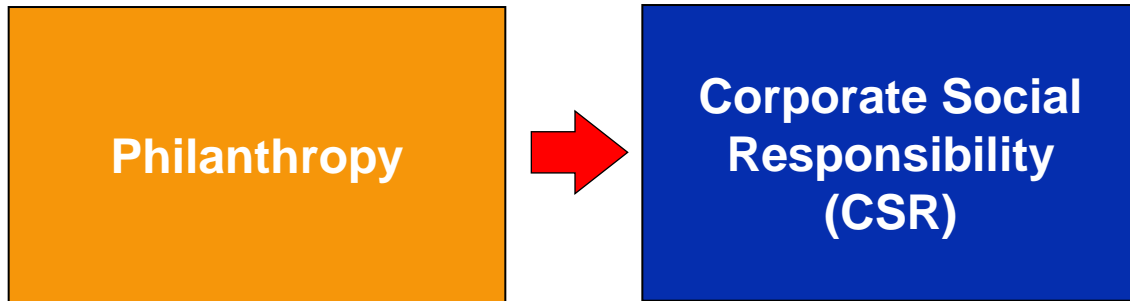
# The Role of a Company in Its Communities



## Philanthropy

- Donations to worthy social causes

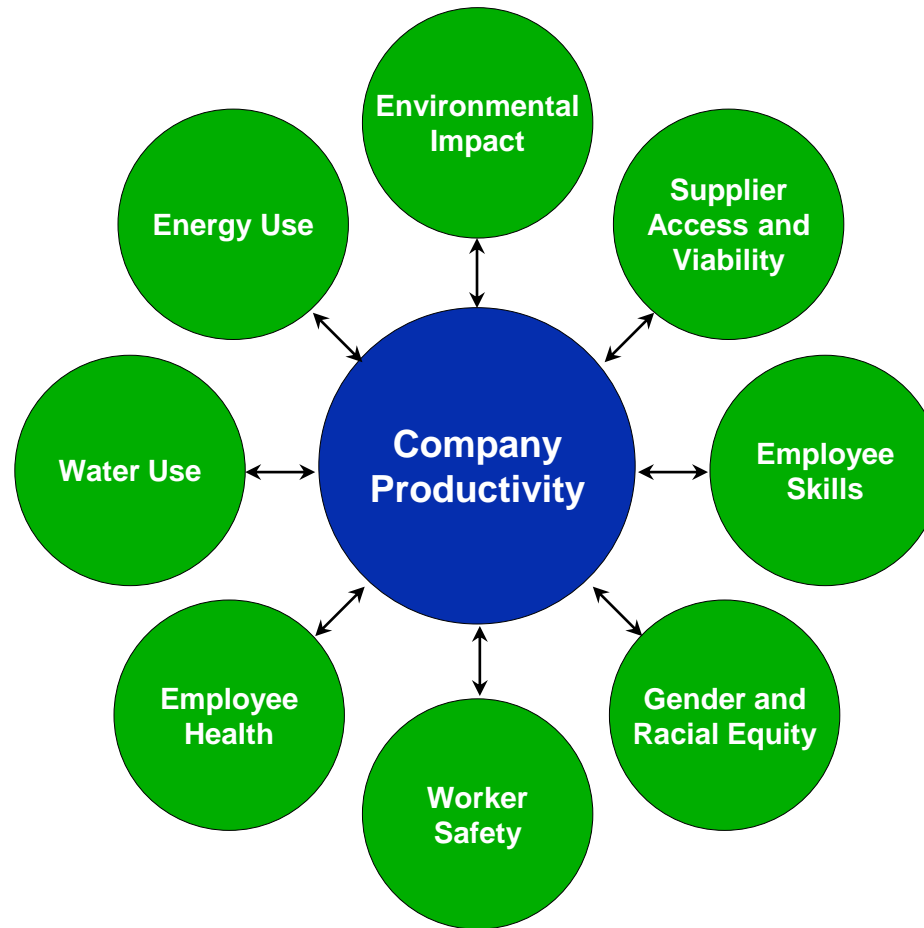
# The Role of a Company in Its Communities



- Donations to worthy social causes

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

# Societal Needs and Economic Value Creation



- **Social** deficits create **economic** cost
- **External** conditions shape **internal** company productivity
- Social needs represent the **largest market opportunities**
- There is a growing **congruence** between economic value creation and societal objectives

# The Role of a Company in Its Communities



# The Concept of Shared Value

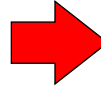
**Shared Value**: Corporate policies and practices that **enhance the competitiveness** of the company while simultaneously **advancing social and economic conditions** in the communities in which it sells and operates

- 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

# Moving to Shared Value



- **Values:** “doing good,” good citizenship, philanthropy, and sustainability
- **Discretionary**
- **Separate** from profit maximization
- Agenda **externally determined**
- Impact is **limited** by the corporate footprint and CSR budget

Example: Fair trade purchasing

- **Value:** economic and societal benefits relative to cost
- Integral to **competing**
- **Essential** to profit maximization
- Agenda is **business specific**
- Mobilizes the **entire company** budget

Example: Transforming procurement to increase quality and yield

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

# 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

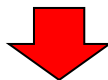
- The program has **trained 55,000 physicians** to date, each treating approximately 230 patients

**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

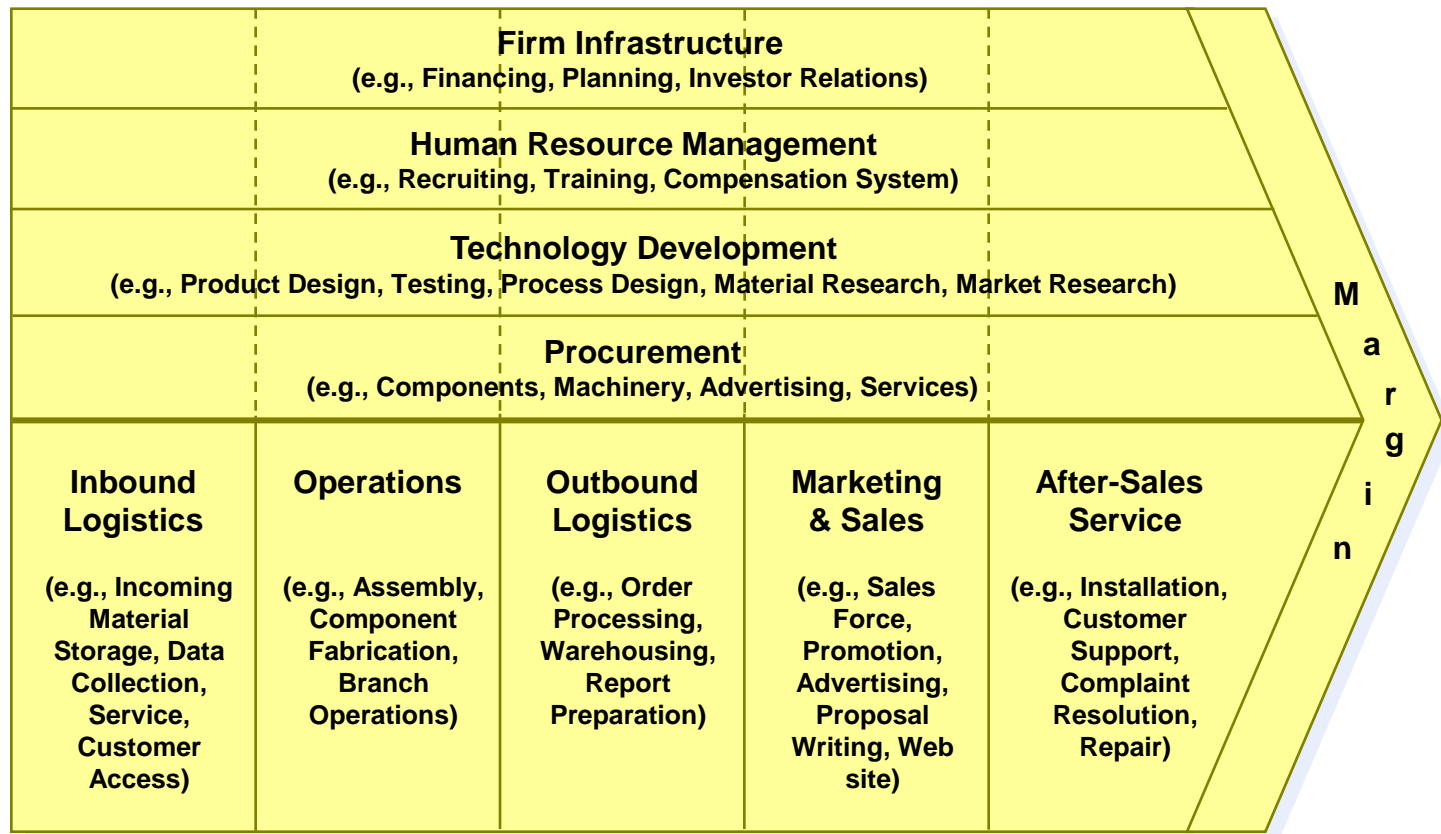
- Formulation with **appropriate insulin dosage** to reflect lighter body weight
- **Product name** Nuo He Ling means “commitment, harmony, and effectiveness” in Chinese



- 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**



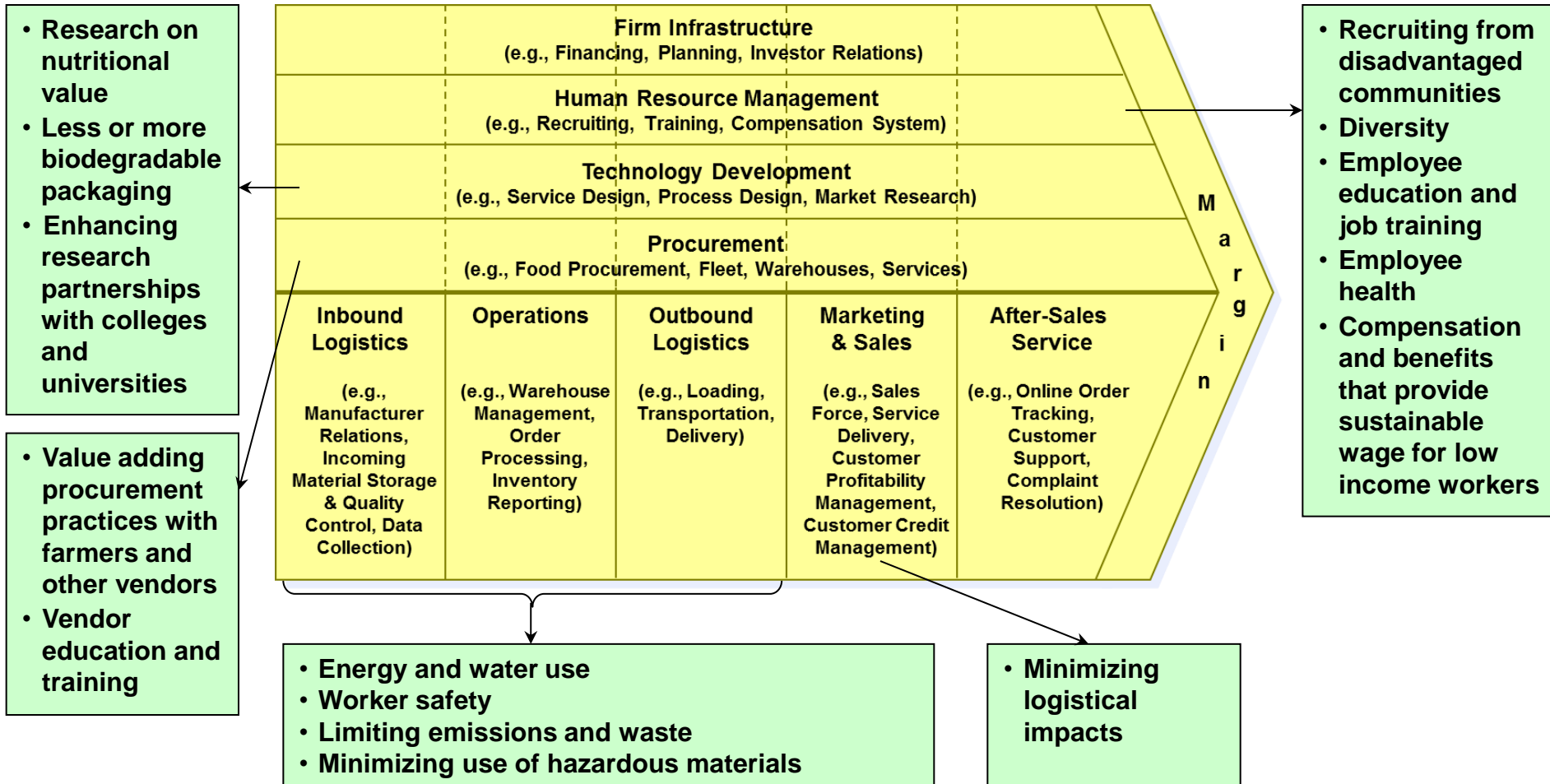
# Redefining Productivity in the Value Chain



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

# Identifying Opportunities for Shared Value in Food Services

## The Value 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

# Enhancing Cluster and Community Development

## Nespresso

- Implementing shared value in **sourcing** premium coffees from farmers in Costa Rica, Guatemala, Colombia, and Ghana
- Upgrading the cluster
  - Supporting local **cluster development** in coffee growing regions, including establishment of cluster institutions
  - **Partnering** with stakeholders

### Shared Value

<u>Farmers</u>	<u>Community</u>	<u>Nespresso</u>
<ul style="list-style-type: none"><li>• Better yields</li><li>• Better prices</li><li>• Better processing</li></ul>	<ul style="list-style-type: none"><li>• Economic development</li><li>• Environmental sustainability</li></ul>	<ul style="list-style-type: none"><li>• Stable supply</li><li>• Better quality</li><li>• Reinforces strategic positioning</li></ul>



- The three levels of shared value are often **mutually reinforcing**

# Creating Shared Value

## Implications for Government and Civil Society

- Government and NGOs often assume that **trade-offs** between economic and social benefits are **inevitable**
- Government and NGOs will be most effective if they **enable shared value** by business

### Implications for NGOs

- NGOs bring unique **expertise**, **implementation** capacity, and relationships of **trust** with communities

#### A New Type of NGO

- **TechnoServe** Promotes the development of agricultural clusters in more than 30 countries
- **RootCapital** Provides financing to more than 400,000 farmers and businesses
- **Bill & Melinda Gates Foundation** Forms partnerships with global corporations to foster agricultural clusters

### Implications for Governments

- Governments should make **platform investments** in public assets and infrastructure to enable shared value by business
- Government should regulate in a way that **reinforces and rewards shared value** in business, rather than working against it

# 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**