

Building a Competitive Mexico: The Role of Business

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*COPARMEX National Annual Meeting 2012
Durango, Mexico
October 19, 2012*

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

What is Competitiveness?

Mexico is a competitive location to the extent that firms operating here are able to **compete successfully** in the global economy while supporting **high and rising wages and living standards** for the average citizen

- Competitiveness is **not** low wages or a cheap peso
- Competitiveness depends on improving **long-run productivity**
 - Productivity of existing employees
 - High participation of working age citizens in the workforce

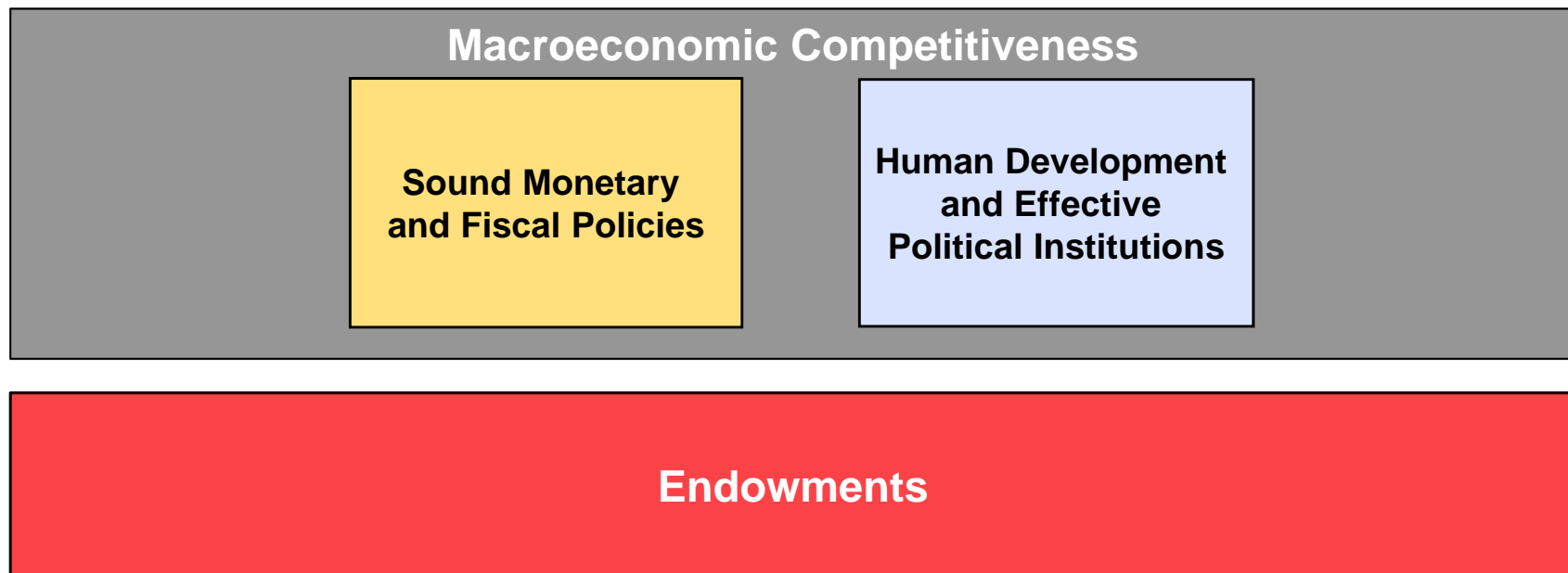
What Determines Competitiveness?



Endowments

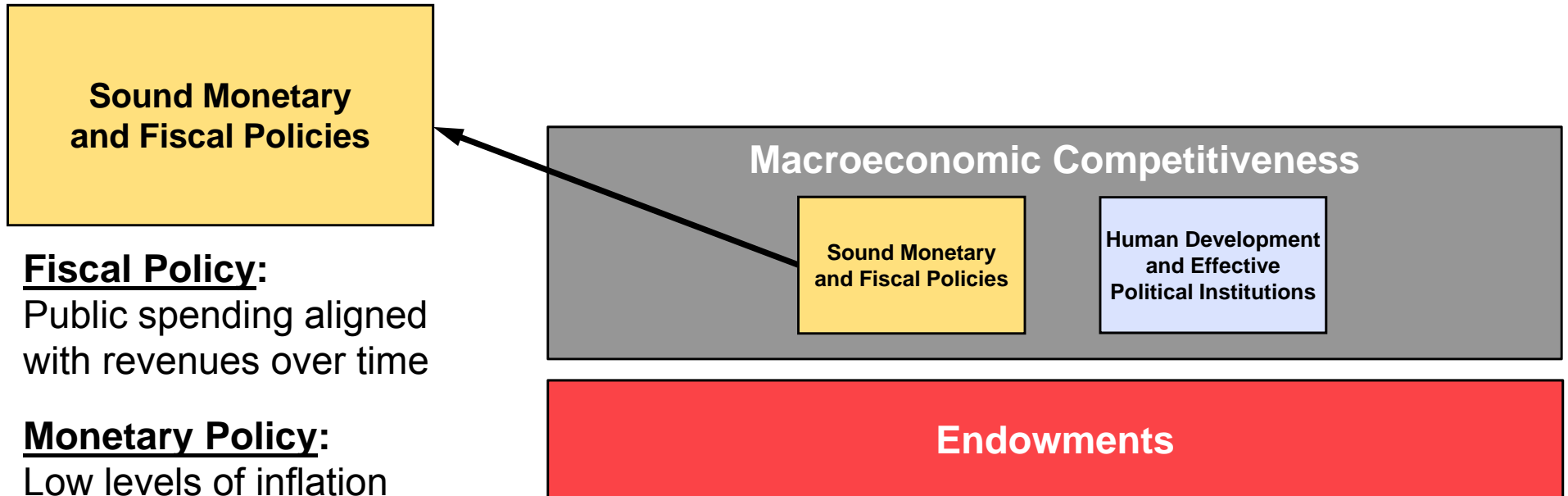
- Endowments, i.e. **natural resources**, **geographical location**, and **size**, create a **foundation** for prosperity, but true prosperity is created by **productivity in the use of endowments**

What Determines Competitiveness?



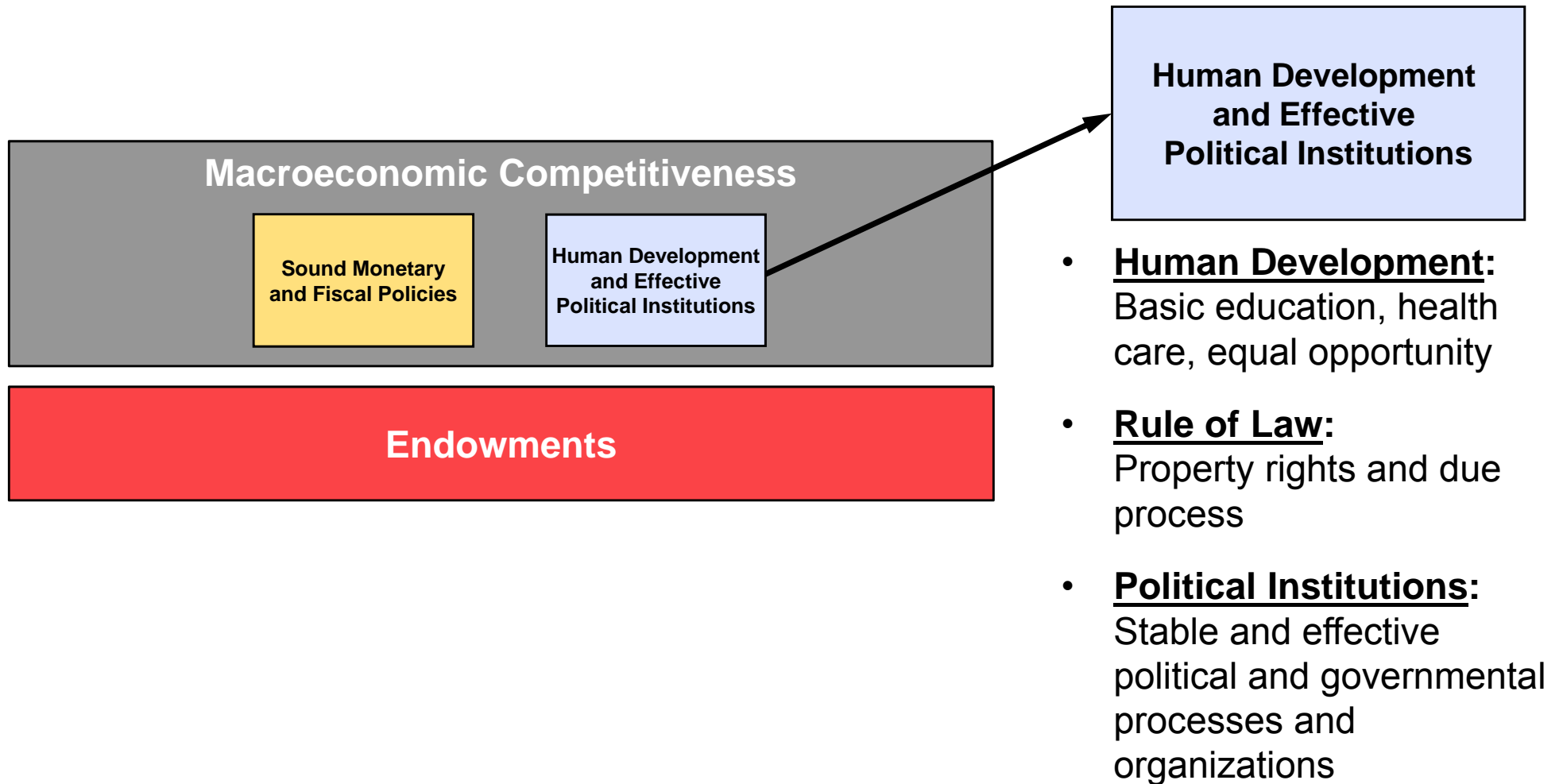
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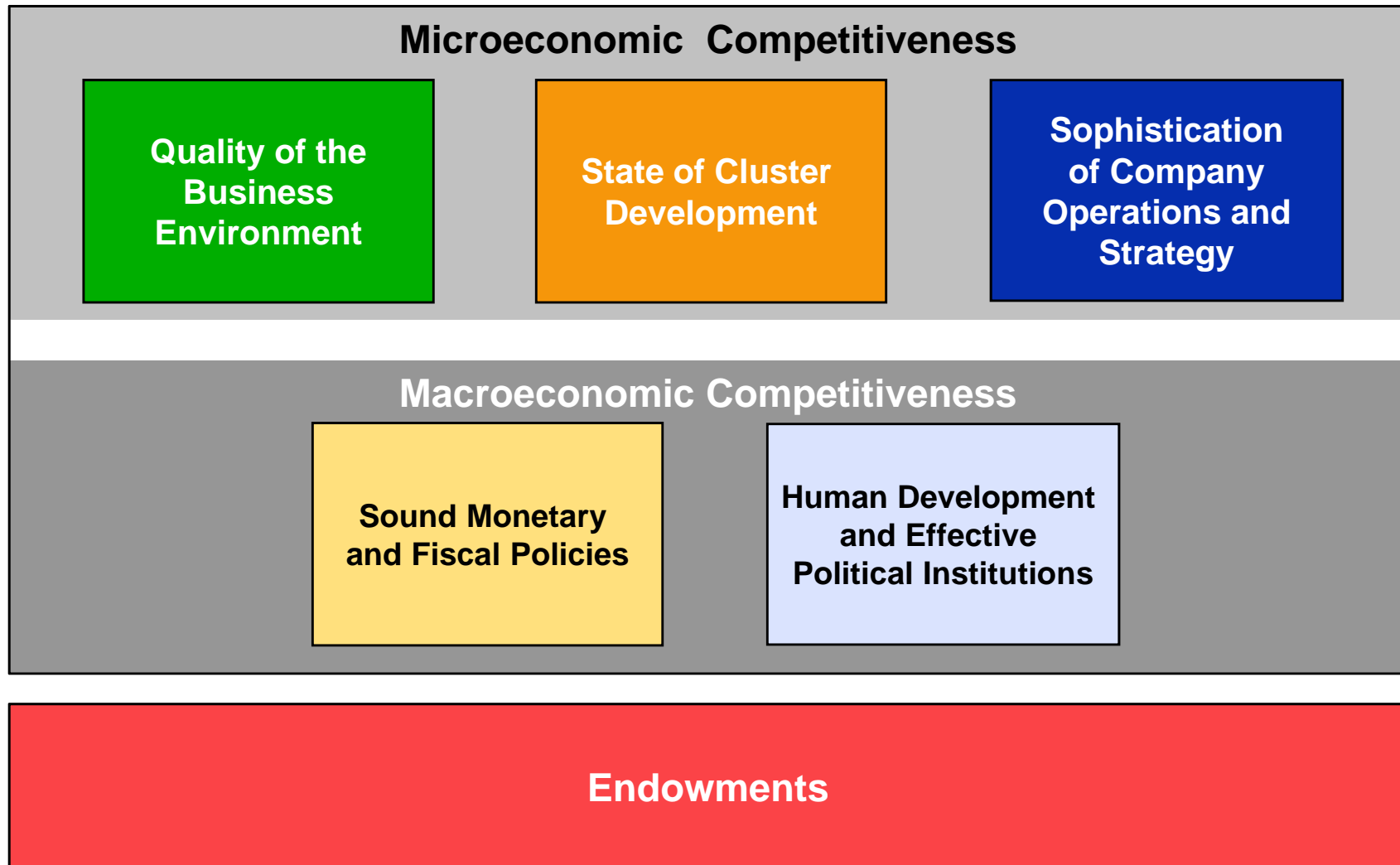


- **Fiscal Policy:**
Public spending aligned with revenues over time
- **Monetary Policy:**
Low levels of inflation
- **Economic Stabilization:**
Avoiding structural imbalances and cyclical overheating

What Determines Competitiveness?

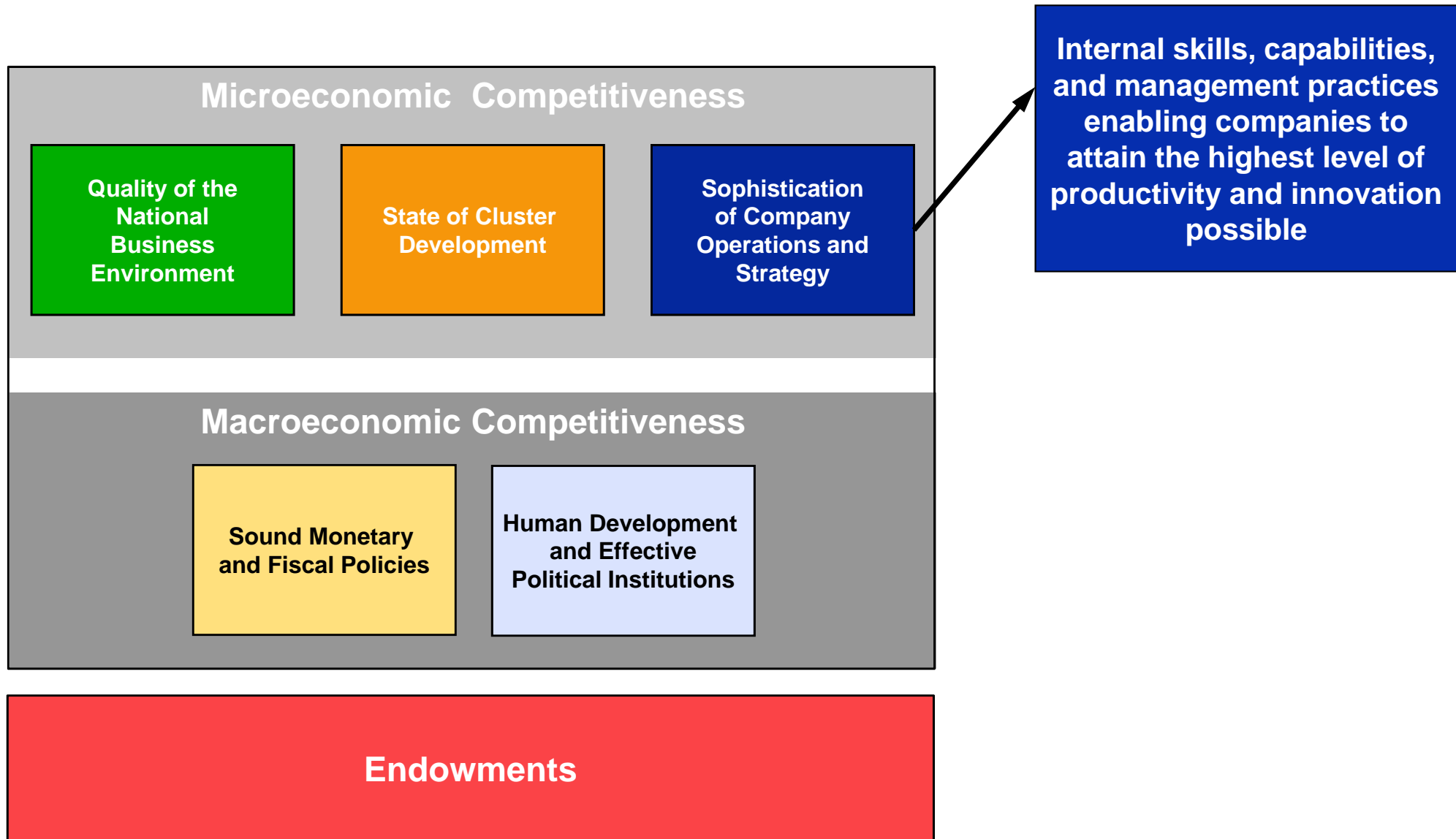


What Determines Competitiveness?



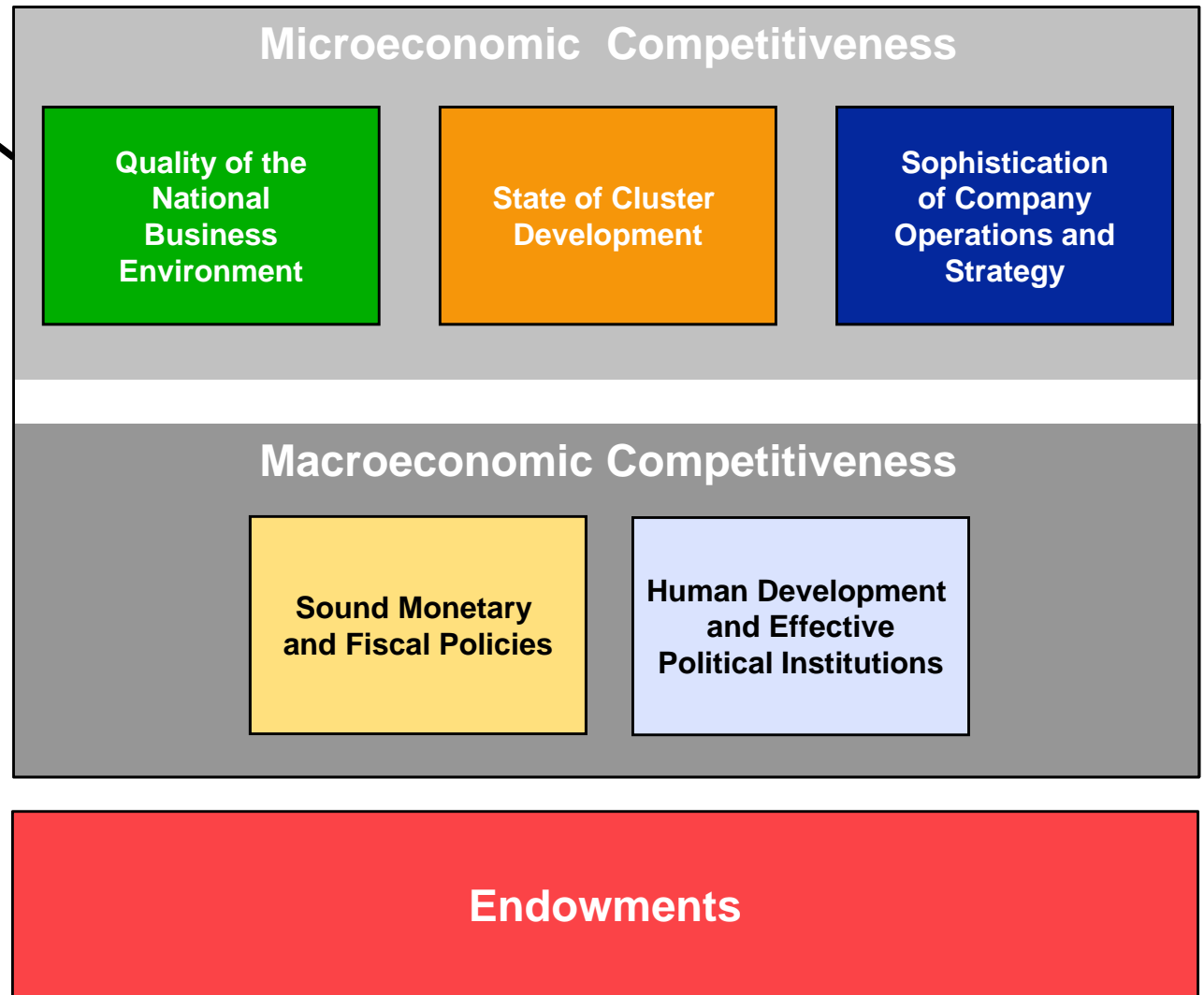
- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition** revealed at the level of regions and clusters
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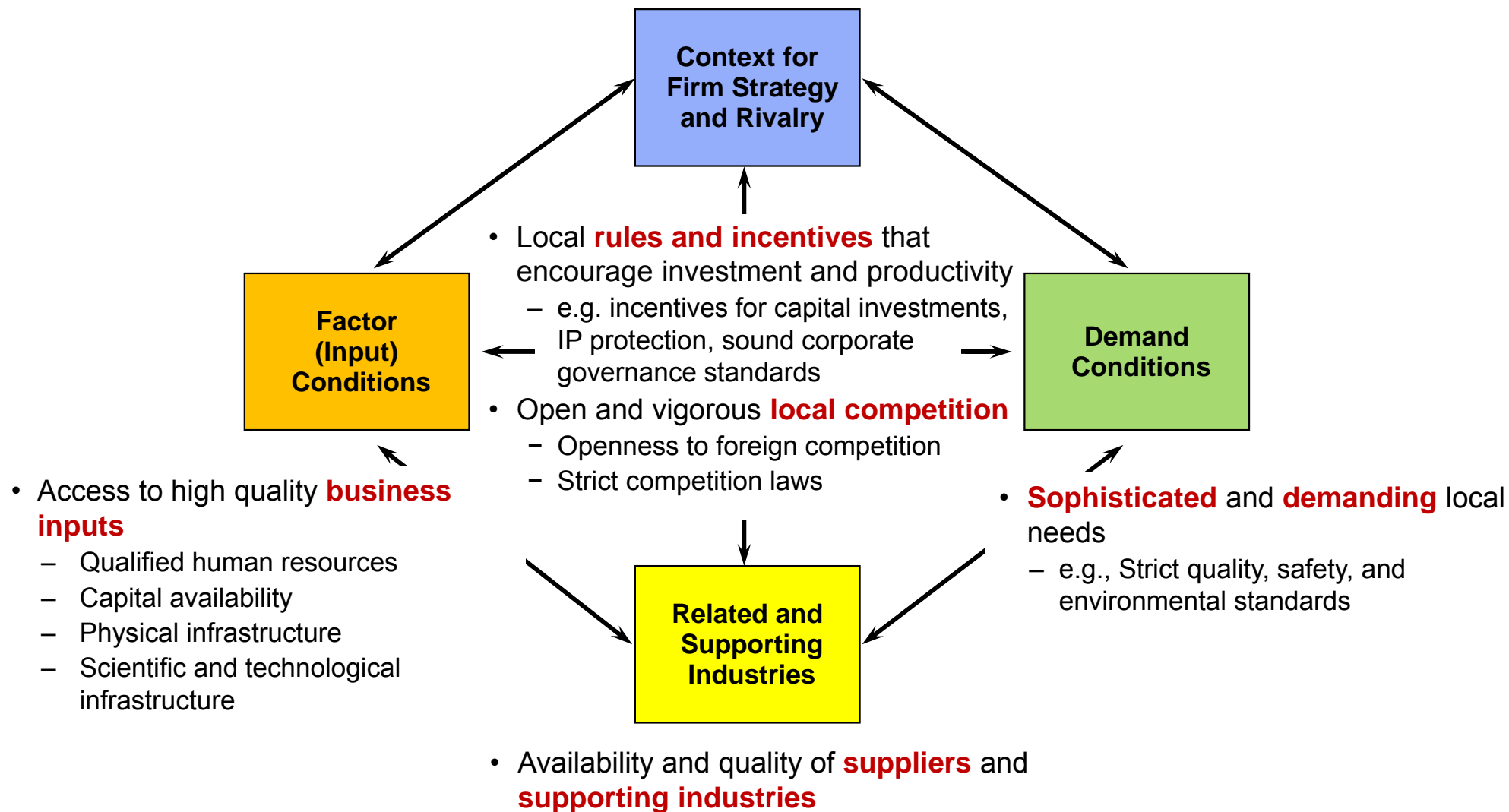


What Determines Competitiveness?

The quality of external business environment conditions supporting company productivity, innovation, and growth

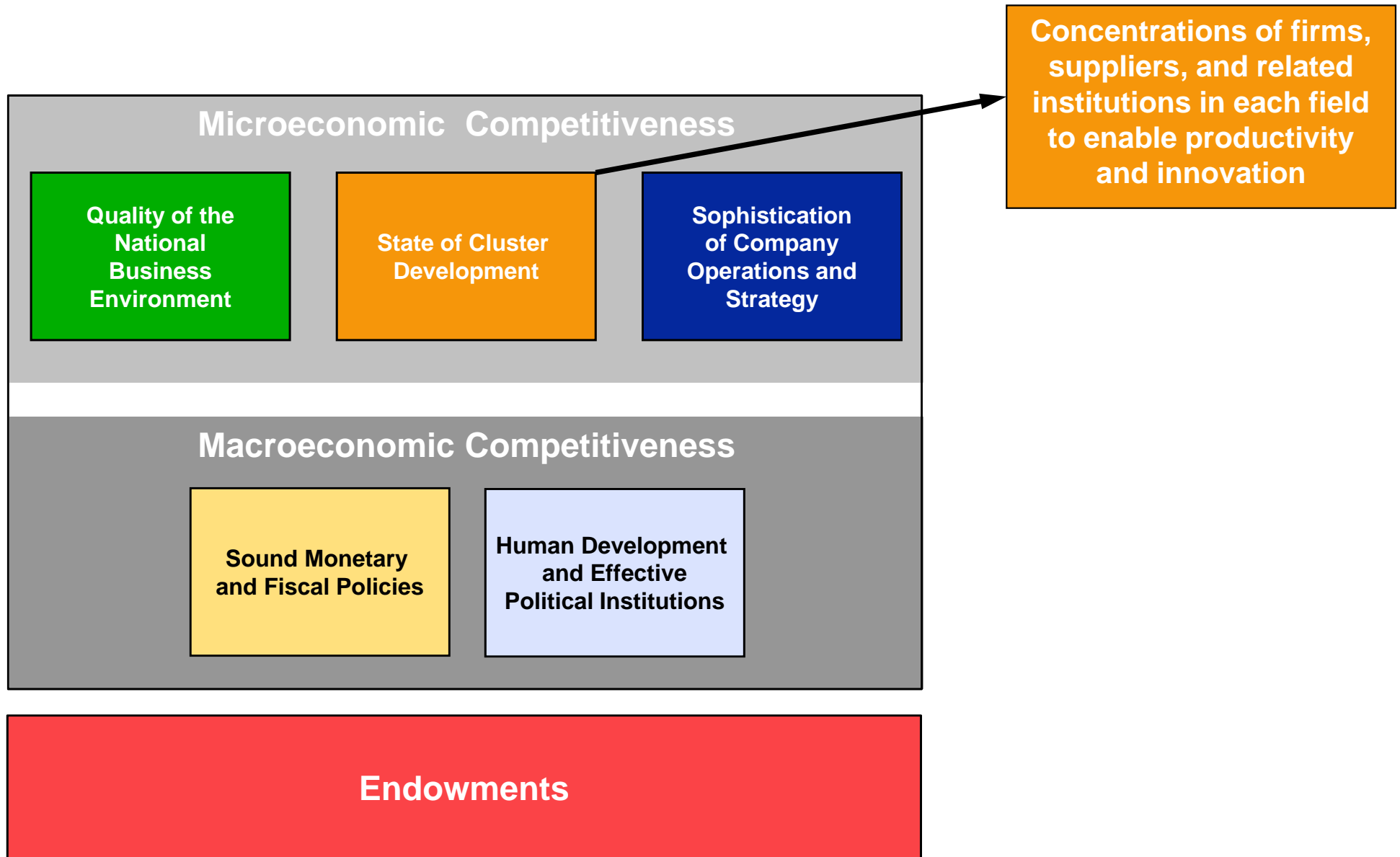


Improving the Business Environment



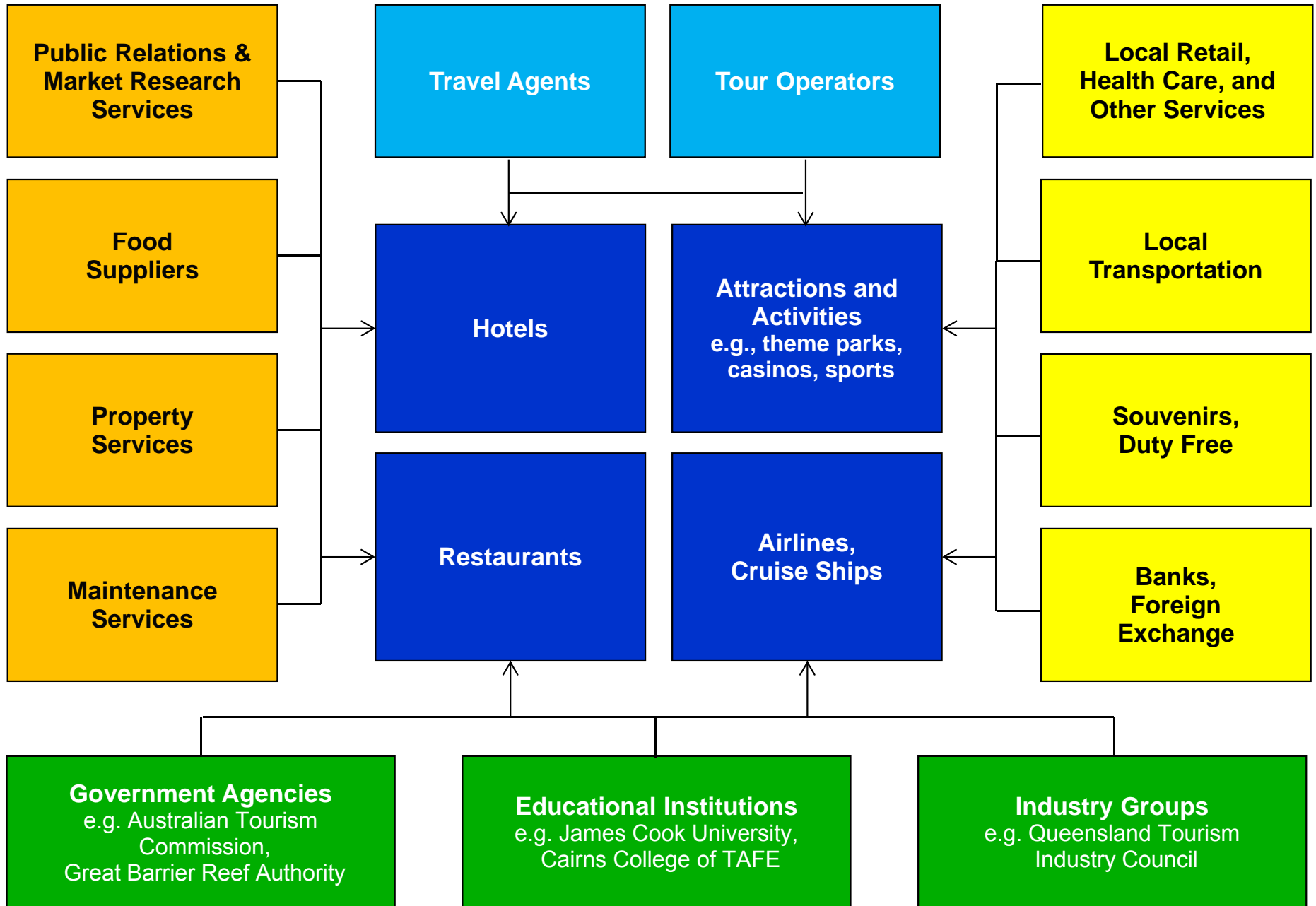
- **Many things matter** for competitiveness
- Successful economic development is a process of **successive upgrading**, in which the business environment improves to enable increasingly sophisticated ways of competing

What Determines Competitiveness?



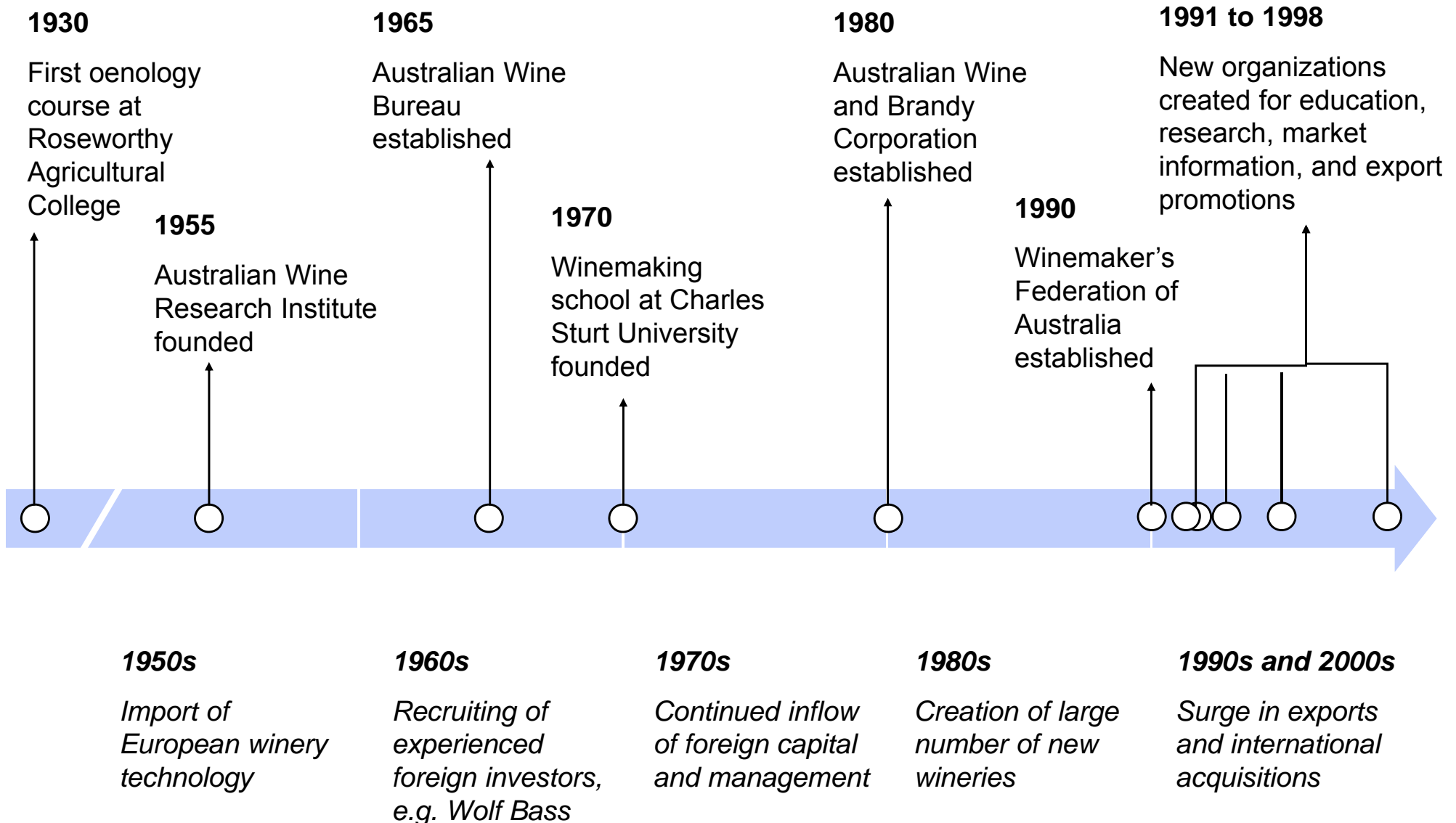
What is a Cluster?

Tourism Cluster in Cairns, Australia



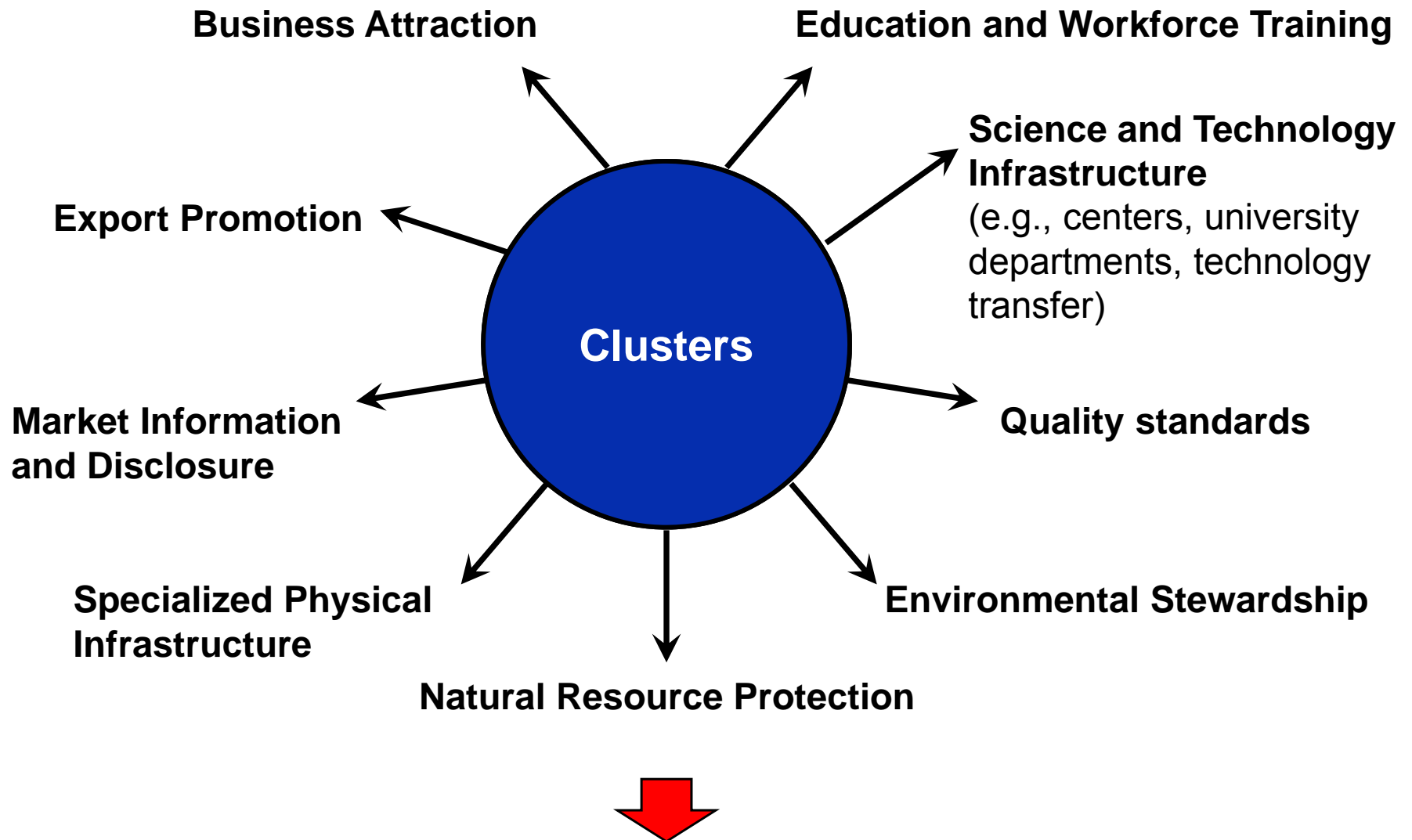
Cluster Emergence and Development

The Australian Wine Cluster



Source: Michael E. Porter and Örjan Sölvell, The Australian Wine Cluster – Supplement, Harvard Business School Case Study, 2002

Government Policy to Drive Clusters



- Clusters provide a framework for **organizing the implementation** of many public policies and public investments directed at economic development

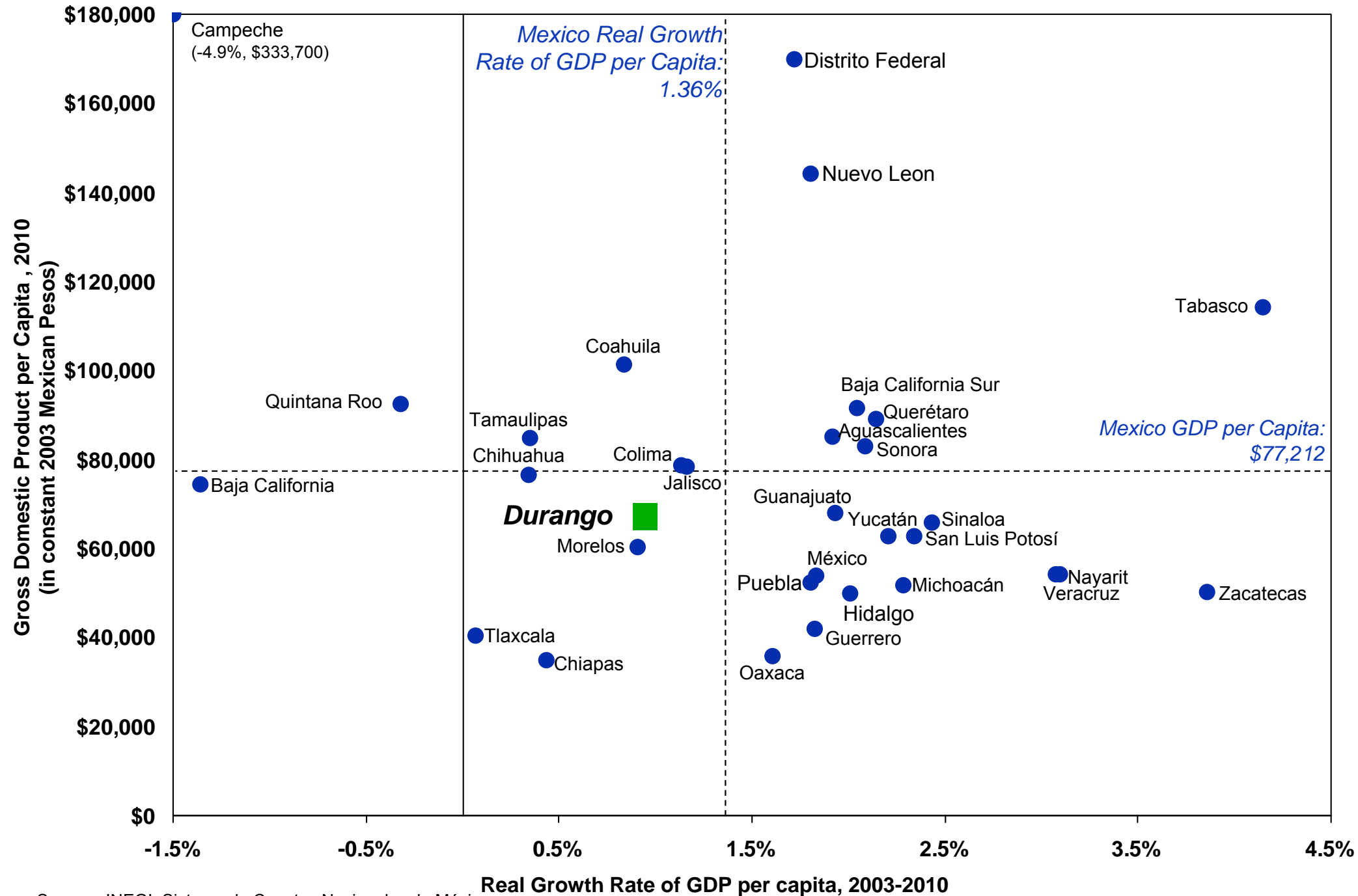
Clusters and Economic Diversification



Regions and Competitiveness

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

Prosperity Performance in Mexican States

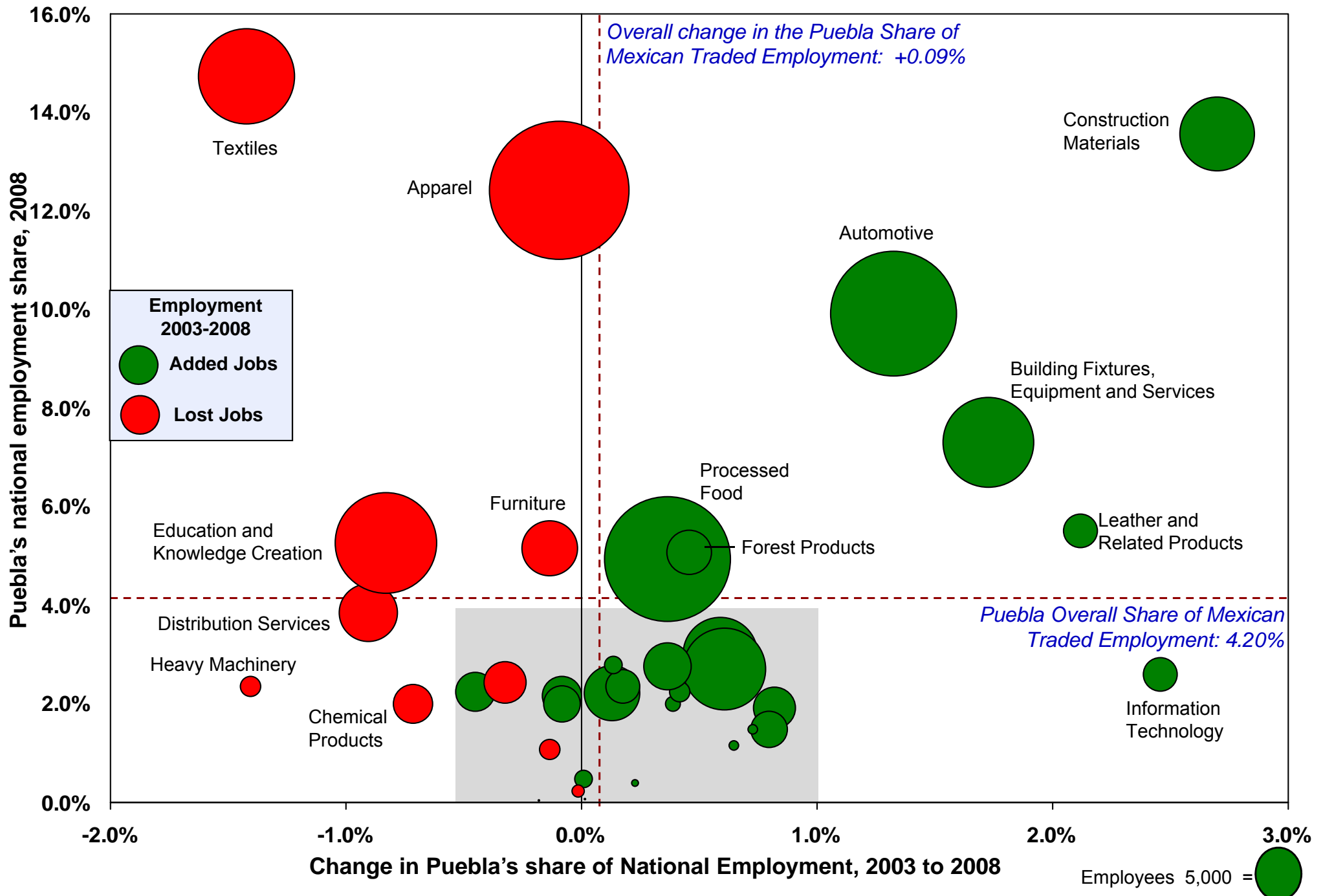


Source: INEGI. Sistema de Cuentas Nacionales de México.

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 and **cluster strength** drives regional performance

Traded Cluster Composition of the Puebla Economy



Regions and Competitiveness

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 - Many essential levers of competitiveness reside at the **regional level**
 - Regions **specialize** in different sets of clusters and **cluster strength** drives regional performance
- Each region needs its own distinctive **competitiveness strategy and action agenda**
 - Business environment improvement
 - Cluster upgrading

Creating a National (and Regional) Economic Strategy

National or Regional Value Proposition

- What is the **distinctive competitive position** of the nation / region given its location, legacy, existing strengths, and potential strengths?
 - What unique strengths as a business location?
 - What roles in the broader region?
 - What types of activities and clusters?

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?

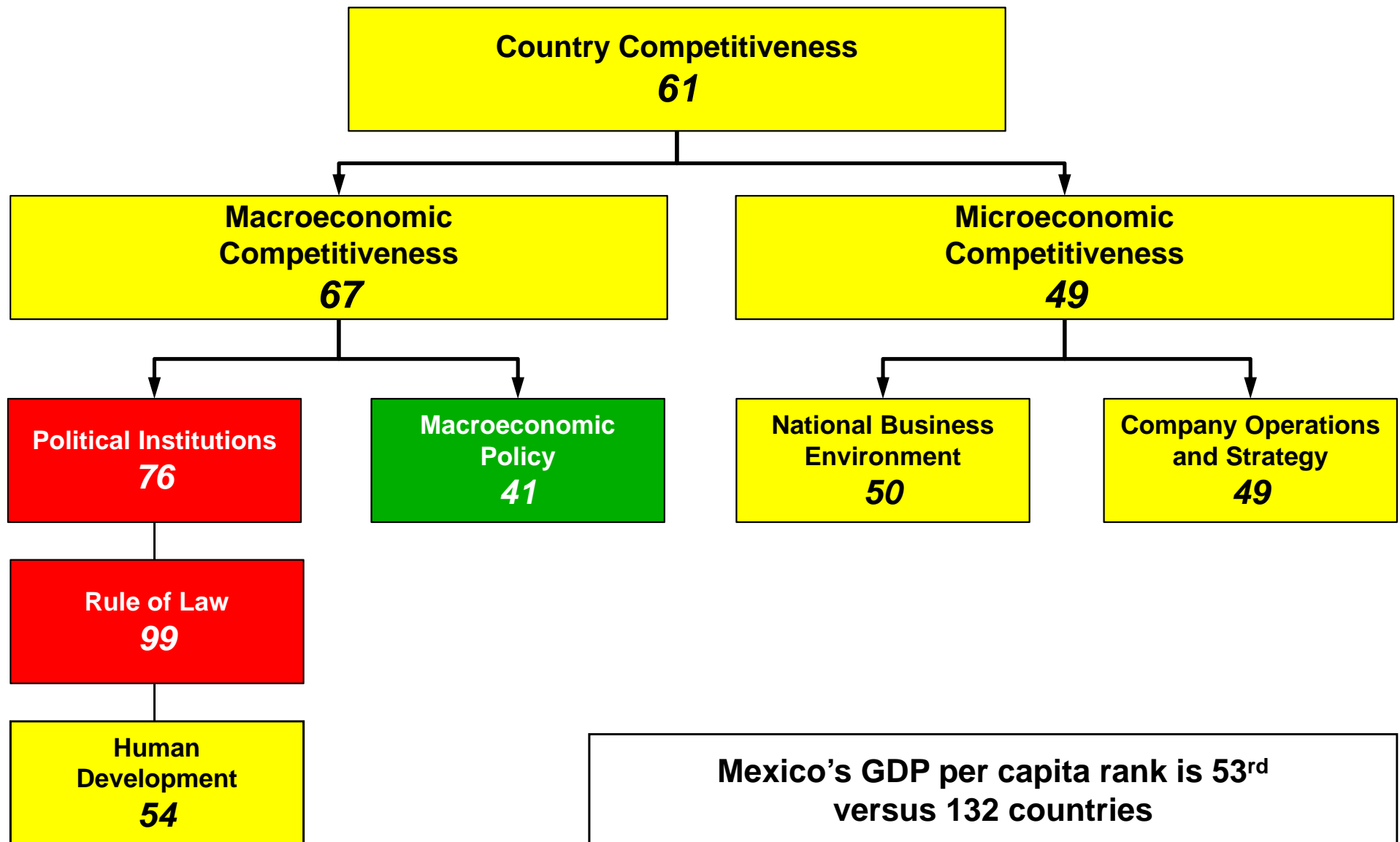
Achieving and Maintaining Parity with Peers

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

- **Priorities** and **sequencing** are essential to building competitiveness

Benchmarking Competitiveness

Mexico's Competitiveness Profile, 2011



Note: Rank versus 132 countries; overall, Mexico ranks 53rd in PPP adjusted GDP per capita and 61st in Global Competitiveness
 Source: Institute for Strategy and Competitiveness, Harvard University (2011), based in part on survey data from the World Economic Forum.

The Role of Business in Social and Economic Development

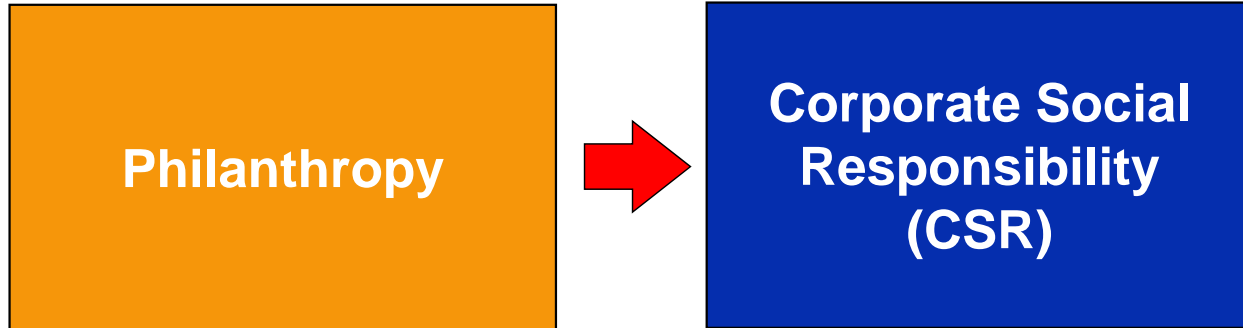
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of Business in Social and Economic Development

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- Compliance with community standards
- Good corporate citizenship
- “Sustainability”

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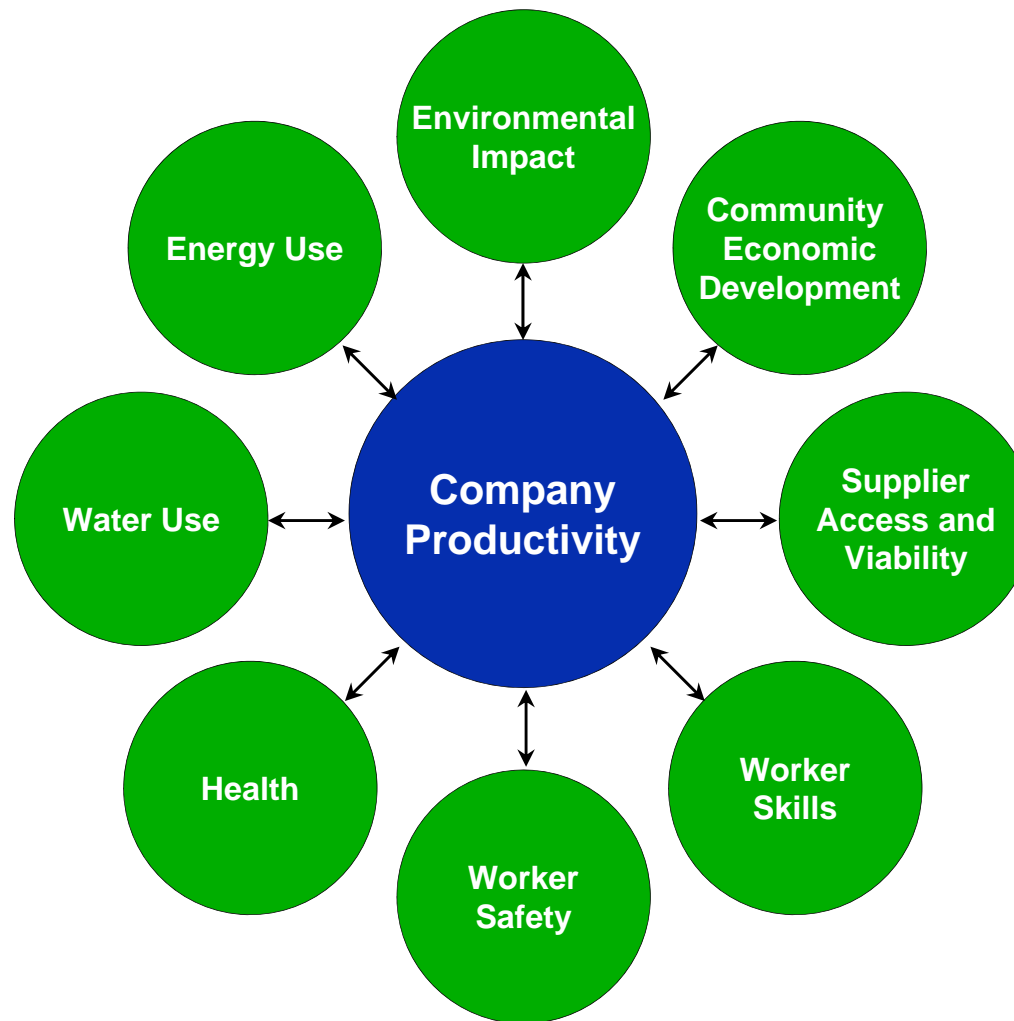


- Donations to worthy social causes
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- Compliance with community standards
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- “Sustainability”

- Integrating societal improvement into **economic value creation** itself
 - Driving social improvement with a **business model**

Societal Needs and Economic Value Creation



- **Social** deficits create **economic** cost
- **“Externalities”** shape **internal** company productivity
- Social needs represent the **largest market opportunities**

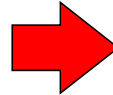
Moving to Shared Value

Fair Trade



Fair Trade

- Paying a **higher price** to farmers for the same products
- **Certification** as a fair trade company



Transforming Procurement

- Collaborate with farmers to **improve quality and yield**
- Supporting investments in **technology** and **inputs**
- Higher prices for **better quality**
- Higher yield increases **quantity** produced

Levels of Shared Value

I: Reconceiving **needs**, **products**, and **customers**

- Meeting **societal needs** through products
- Addressing **unserved** or **underserved customers** in your industry

II: **Redefining productivity** in the value chain

- Change practices in the value chain to drive productivity by **better utilizing resources, employees, and business partners**

III: Enabling **local cluster development**

- Improving the **available skills, suppliers base, and supporting institutions** in the communities in which a company operates to boost productivity, innovation, and growth

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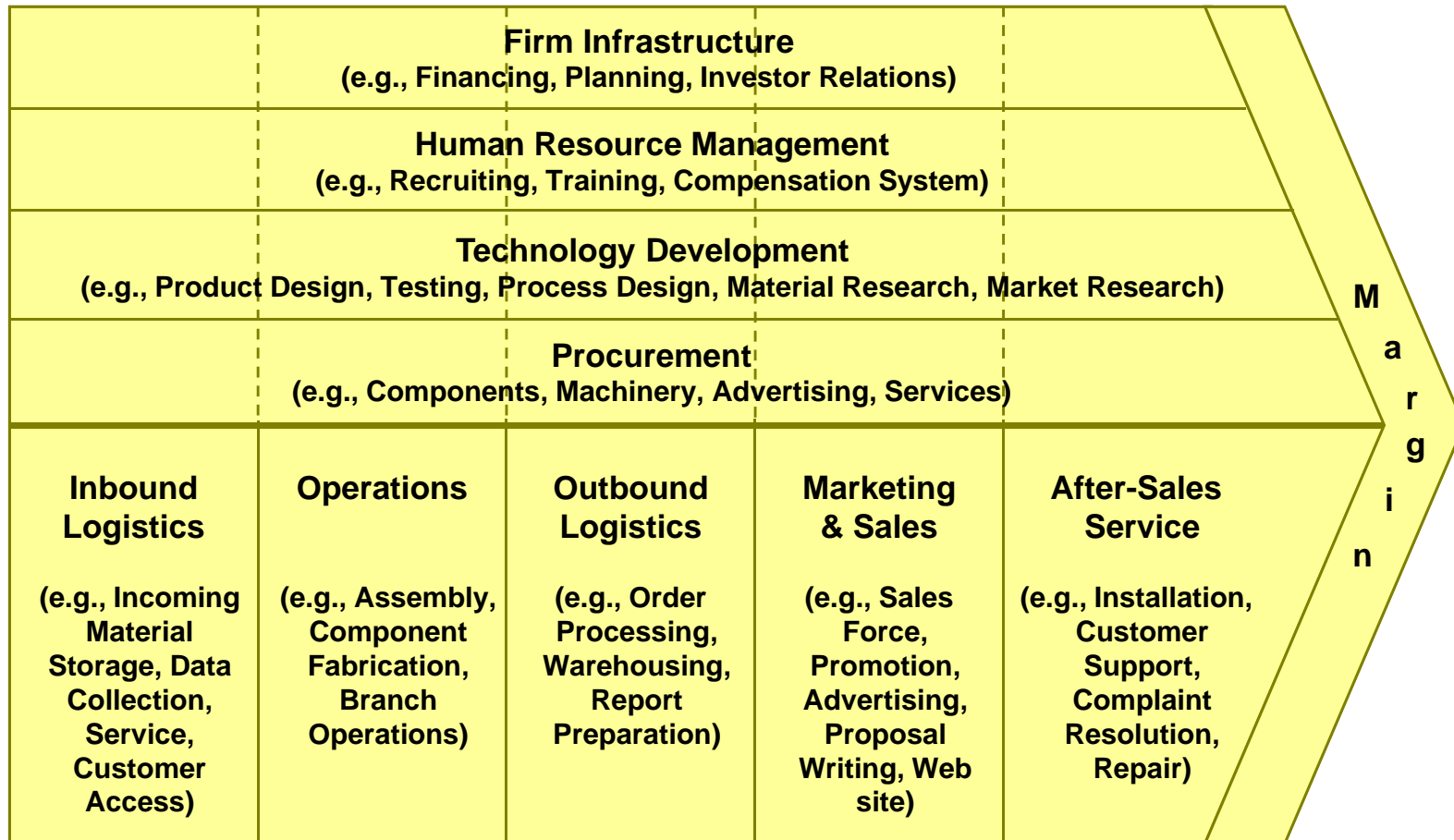
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Redefining Productivity in the Value Chain



- Shared value purchasing
- Energy and resource efficiency
- Leveraging location of facilities
- Strengthening local distribution channels
- Logistical efficiency
- Enhancing the productivity of lower income employees and improving their wages
- Improving employee health

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The Role of Business in Mexican Competitiveness

Action Agenda

Improving skills

- Create or expand an **apprentice program**
- Create or expand **a training program**
- Partner with a **community college, technical school, or university**

Upgrading supporting industries

- Identify and increase sourcing from capable **local suppliers**
- **Mentor local suppliers** to upgrade their capabilities

Supporting innovation and entrepreneurship

- Participate in **research collaboratives** in company's field
- **Invest in or incubate promising startups** related to company's business

Collaborating on regional business environment improvement

- Participate in a **regional competitiveness initiative** in your region

The Purpose of Business

- Our purpose in business is to **create shared value for society**, not economic value for its own sake
- Businesses **acting as businesses**, not as charitable givers, are arguably the most powerful force for addressing many of the pressing issues facing our society
- Shared value will give rise to **far broader opportunities** for economic value creation
- Shared value thinking will drive the next wave of **innovation, productivity, and economic growth** in Mexico
- A transformation of business practice around shared value will give **purpose** to the corporation and represents our best chance to **legitimize business again**