

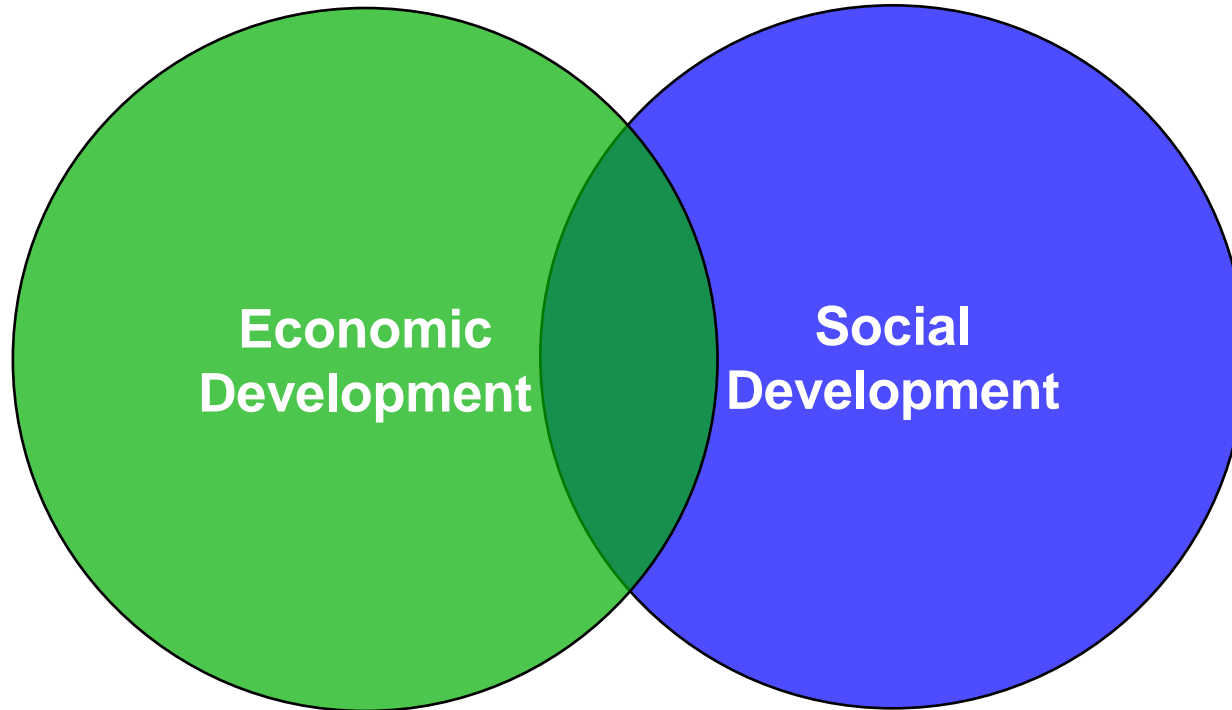
Economic and Social Development: The New Learning

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Harvard Business School

*VII Americas Competitiveness Forum
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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), "[Creating Shared Value](#)" (Harvard Business Review, Jan 2011), the [Social Progress Index Report](#) (Social Progress Imperative) and ongoing related research. 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. For further materials, see the website of the Institute for Strategy and Competitiveness (www.isc.hbs.edu), FSG (www.fsg.org) and the Social Progress Imperative (www.socialprogressimperative.org).

The Dual Challenges of Development



- There is a powerful connection between **economic** and **social** development, that goes in **both directions**
- Successful development requires improving the economic and social context **simultaneously**

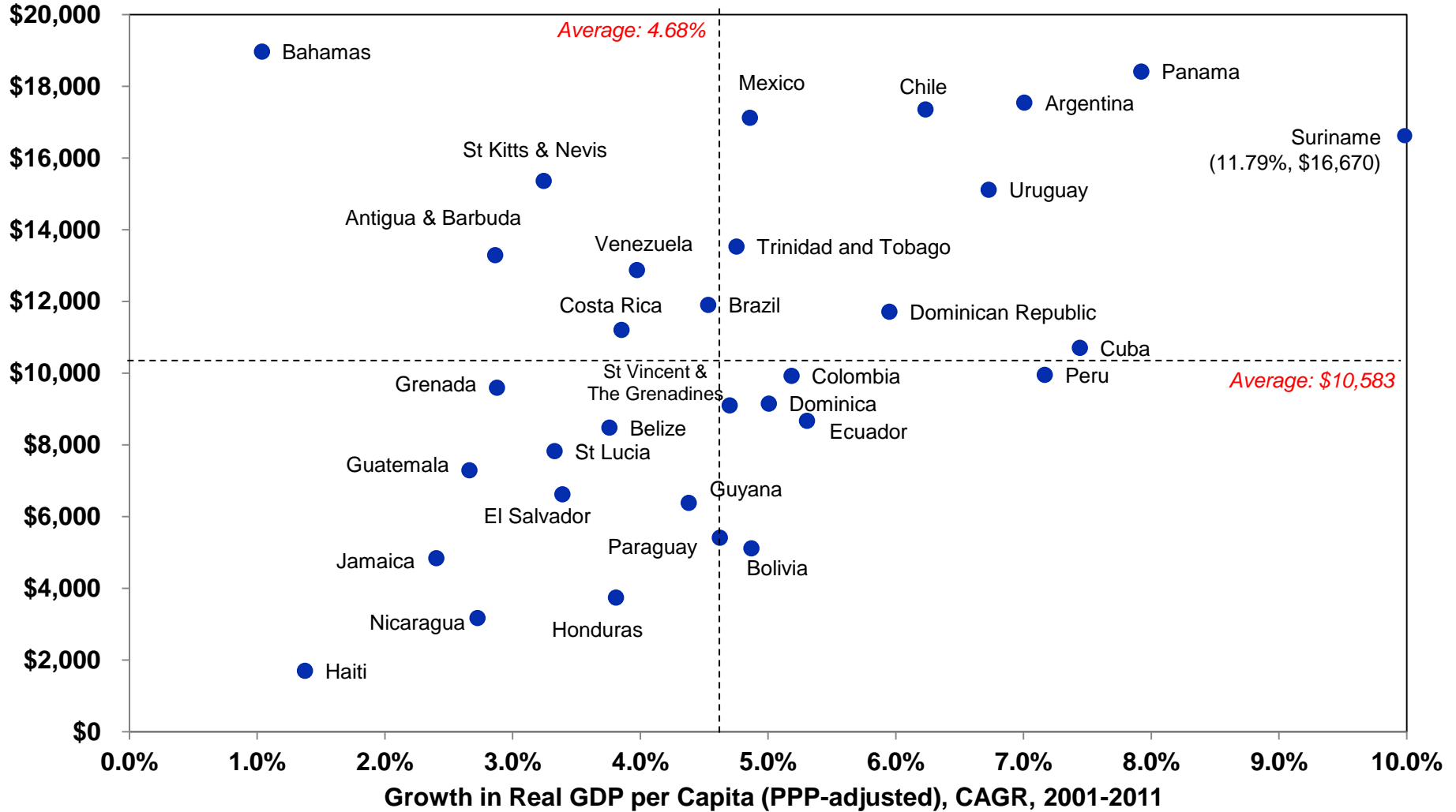
Economic and Social Development: The New Learning

1. Strategy for Economic Development
2. Measuring Social Development
3. Business as a Driver of Social and Economic Development

Prosperity Performance

Latin America and the Caribbean

PPP-Adjusted GDP per Capita, 2011 (\$USD)



Competitiveness and Economic Development

- Successful economic development only occurs by improving **competitiveness**

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

- Competitiveness depends on the **long-run productivity** of a location as a place to do business
 - Productivity of existing firms and workers
 - Ability to achieve high participation of working age citizens in the workforce
- Competitiveness is **not**:
 - Low wages
 - A weak currency
 - Jobs per se

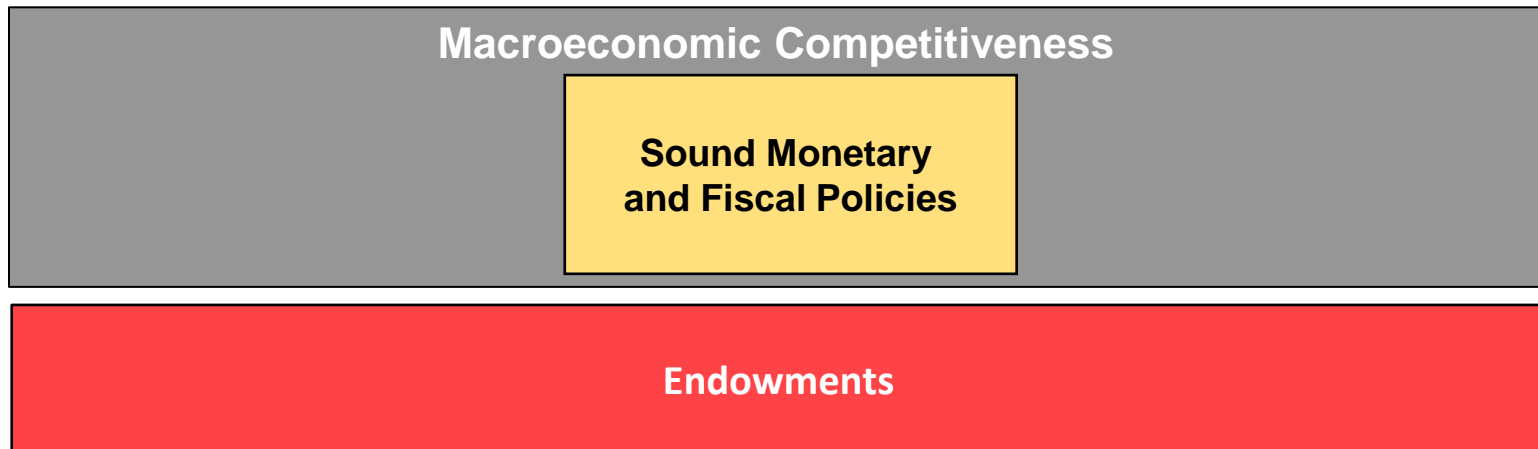
What Determines Competitiveness?



Endowments

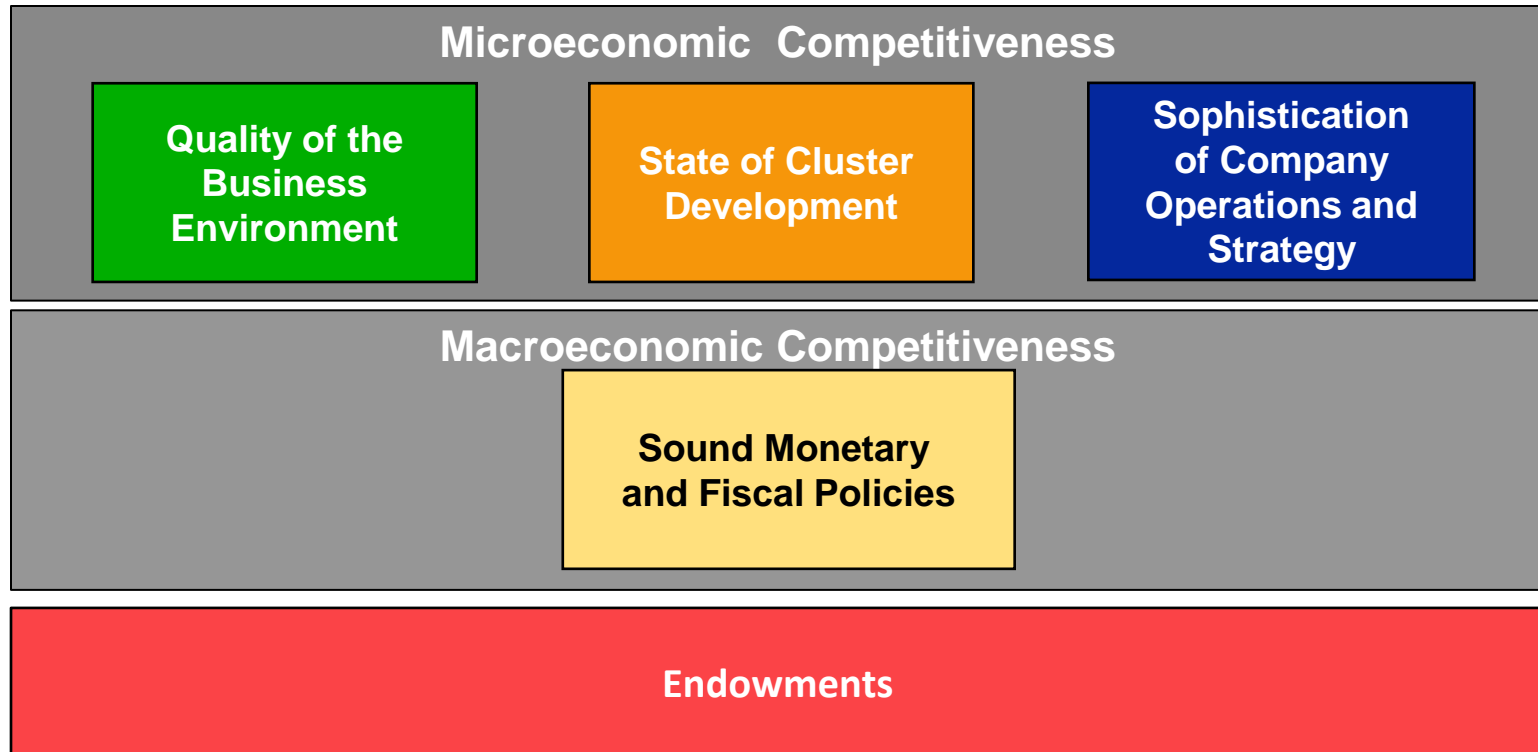
- Endowments, including **natural resources**, **geographical location**, **population**, and **country size**, create a **foundation** for prosperity, but true prosperity arises from **productivity in the use of endowments**

What Determines Competitiveness?



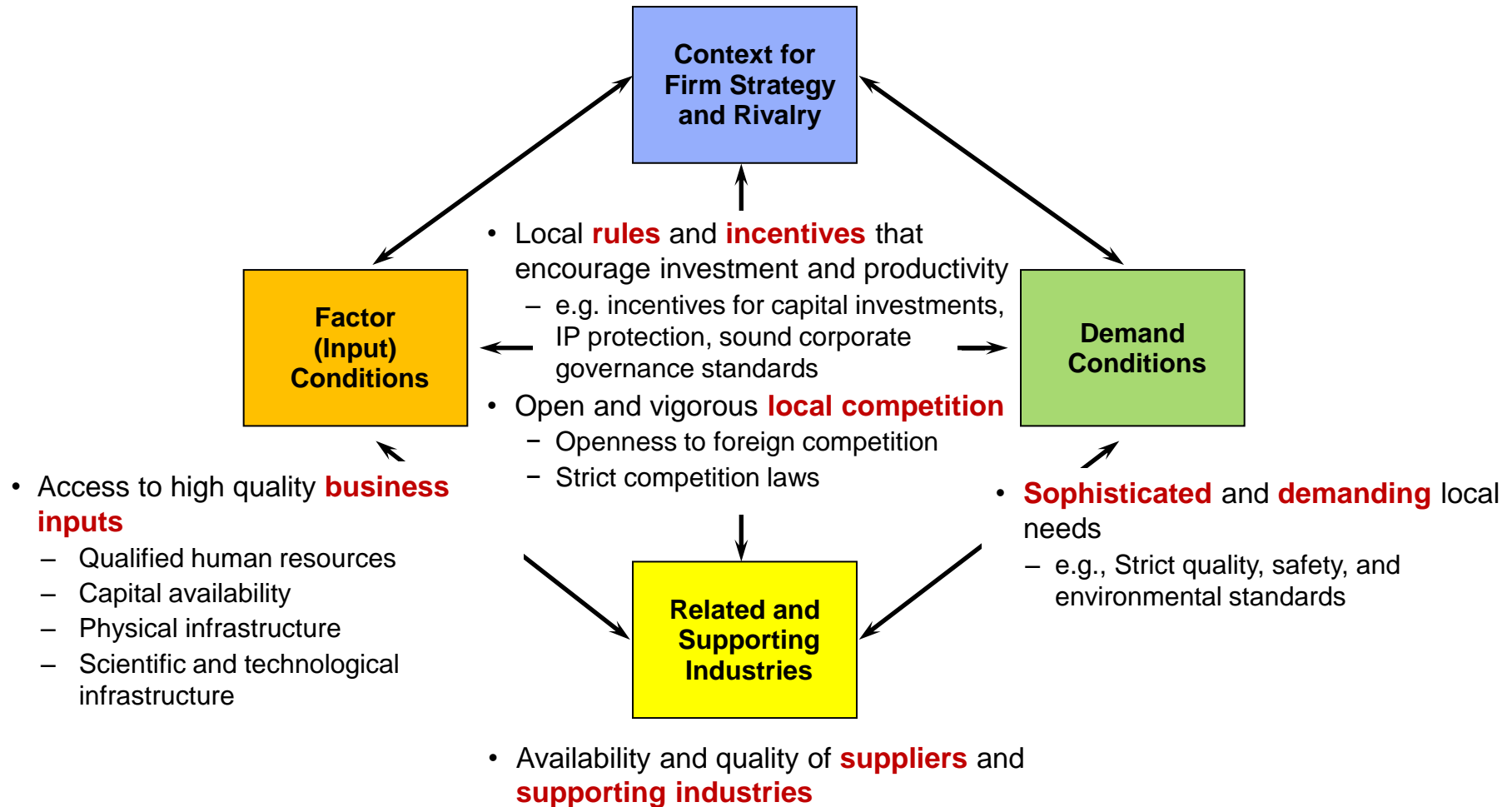
- Macroeconomic competitiveness sets the **economy-wide** context for productivity to emerge, but is **not sufficient** to ensure productivity
- Endowments, including **natural resources, geographical location, population,** and **country size**, create a **foundation** for prosperity, but true prosperity arises from **productivity in the use of endowments**

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 firms, clusters, and regions
- Macroeconomic competitiveness sets the **economy-wide** context for productivity to emerge, but is **not sufficient** to ensure productivity
- Endowments, including **natural resources, geographical location, population, and country size**, create a **foundation** for prosperity, but true prosperity arises from **productivity in the use of endowments**

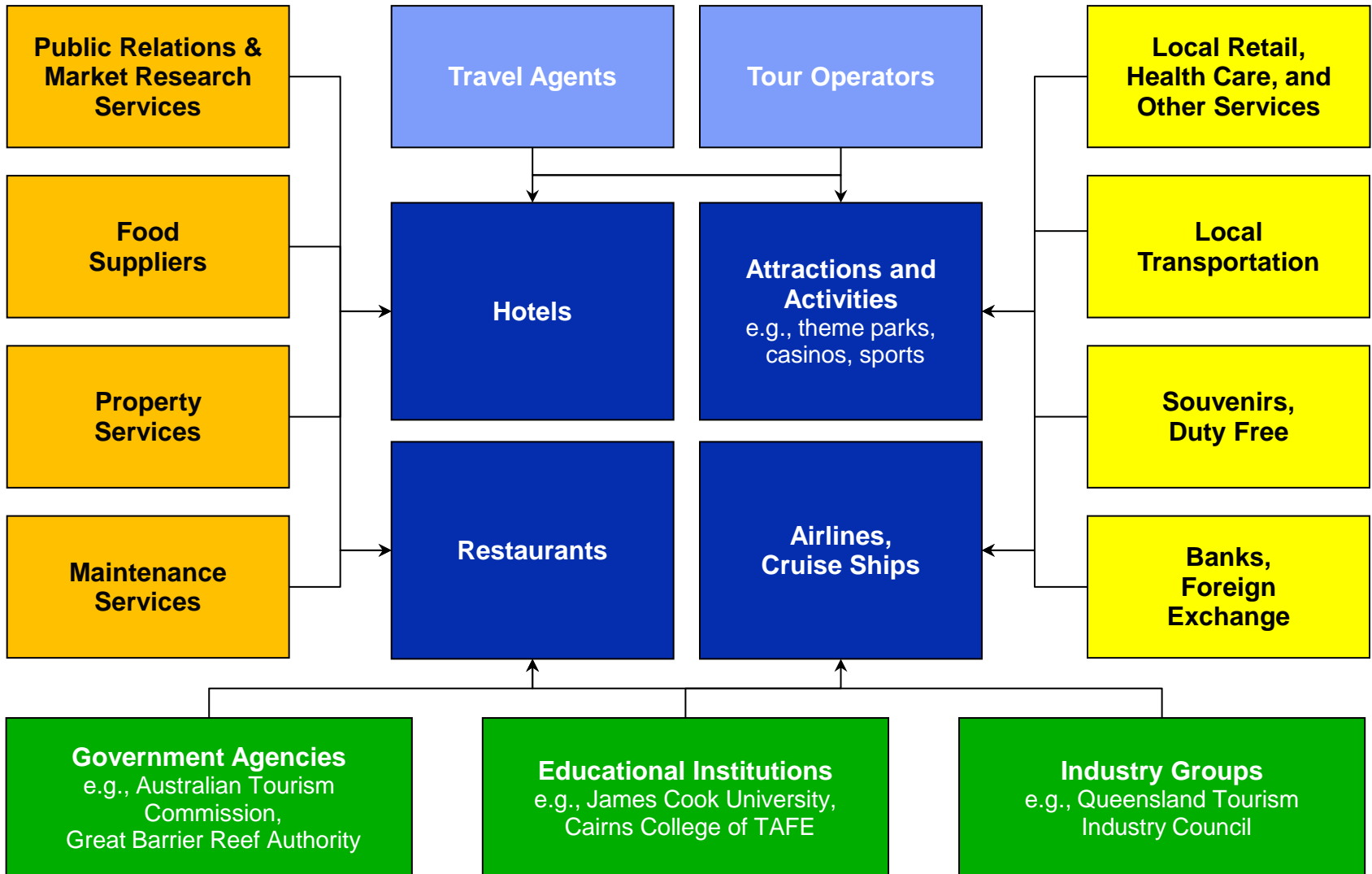
Improving the Quality of the Business Environment



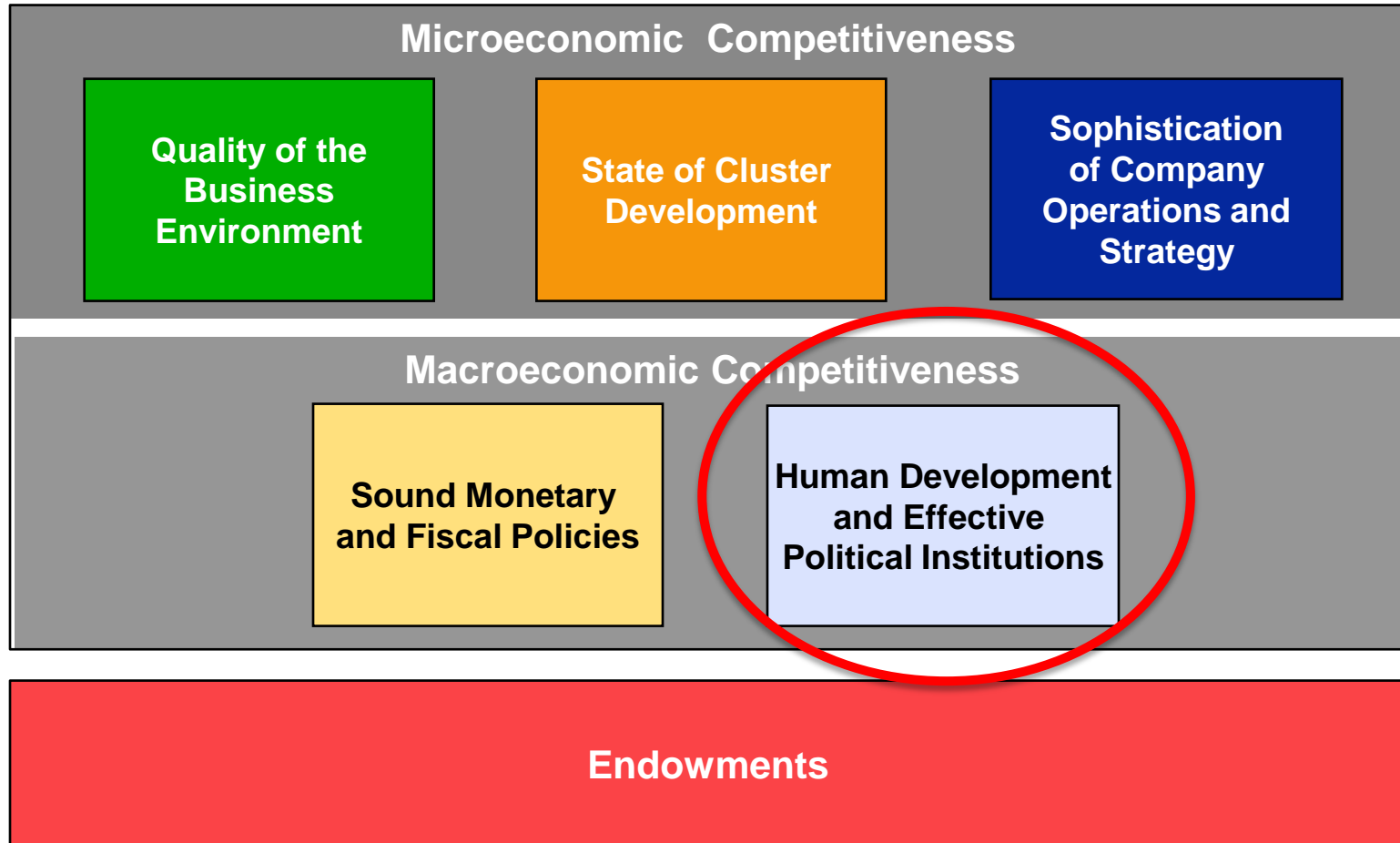
- **Many things matter** for competitiveness
- Successful economic development is a process of **successive upgrading**, in which the business environment improves to enable increasingly sophisticated ways of competing

Developing Clusters

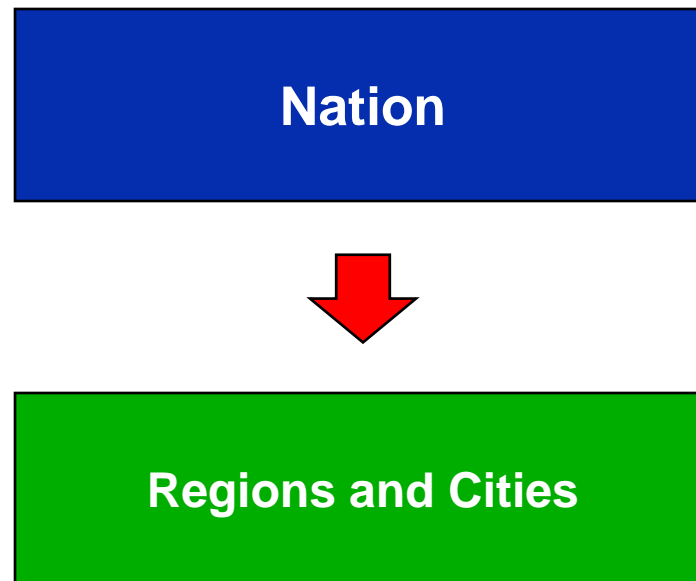
Tourism in Cairns, Australia



What Determines Competitiveness?

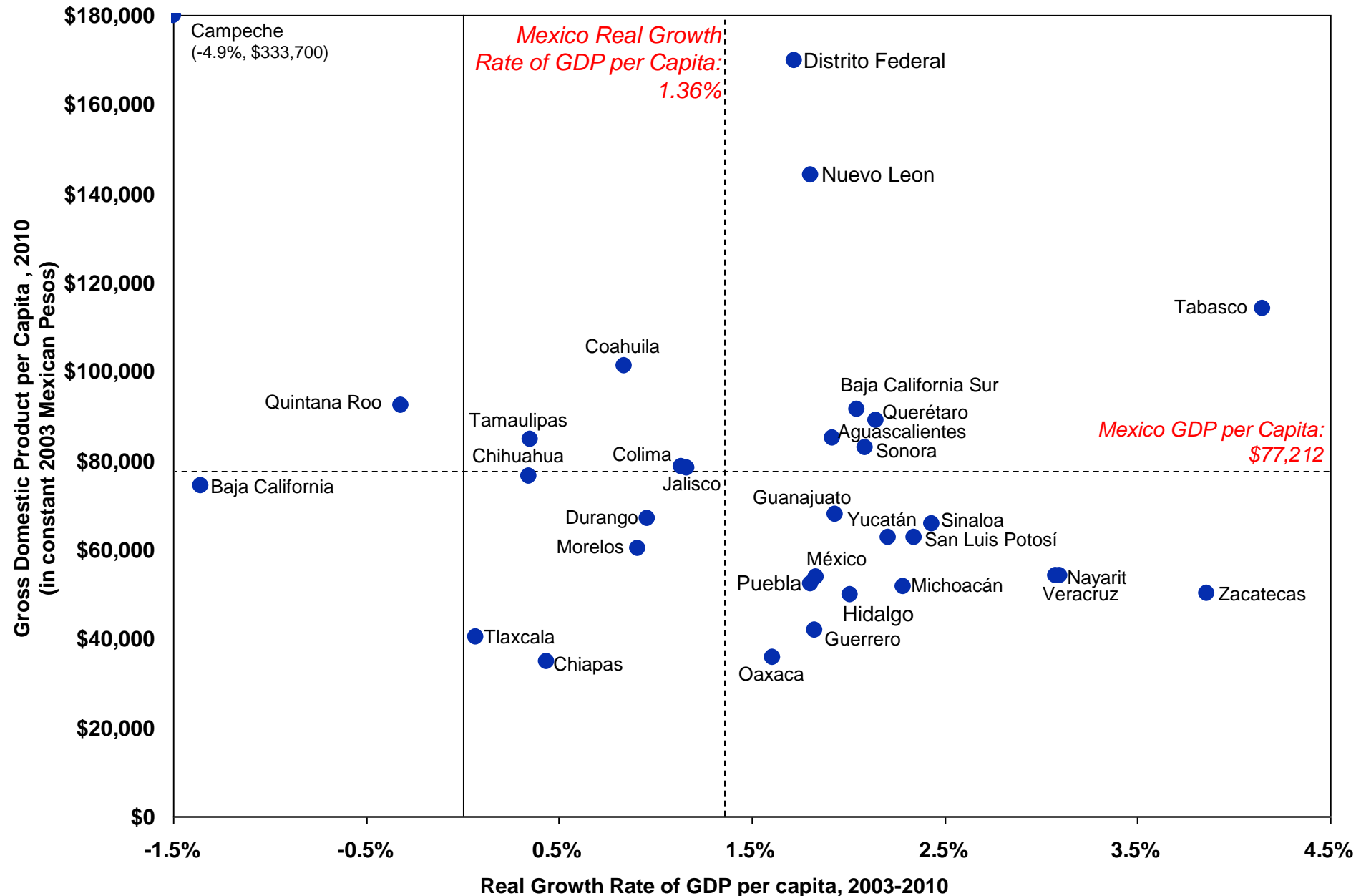


Geographic Influences on Competitiveness

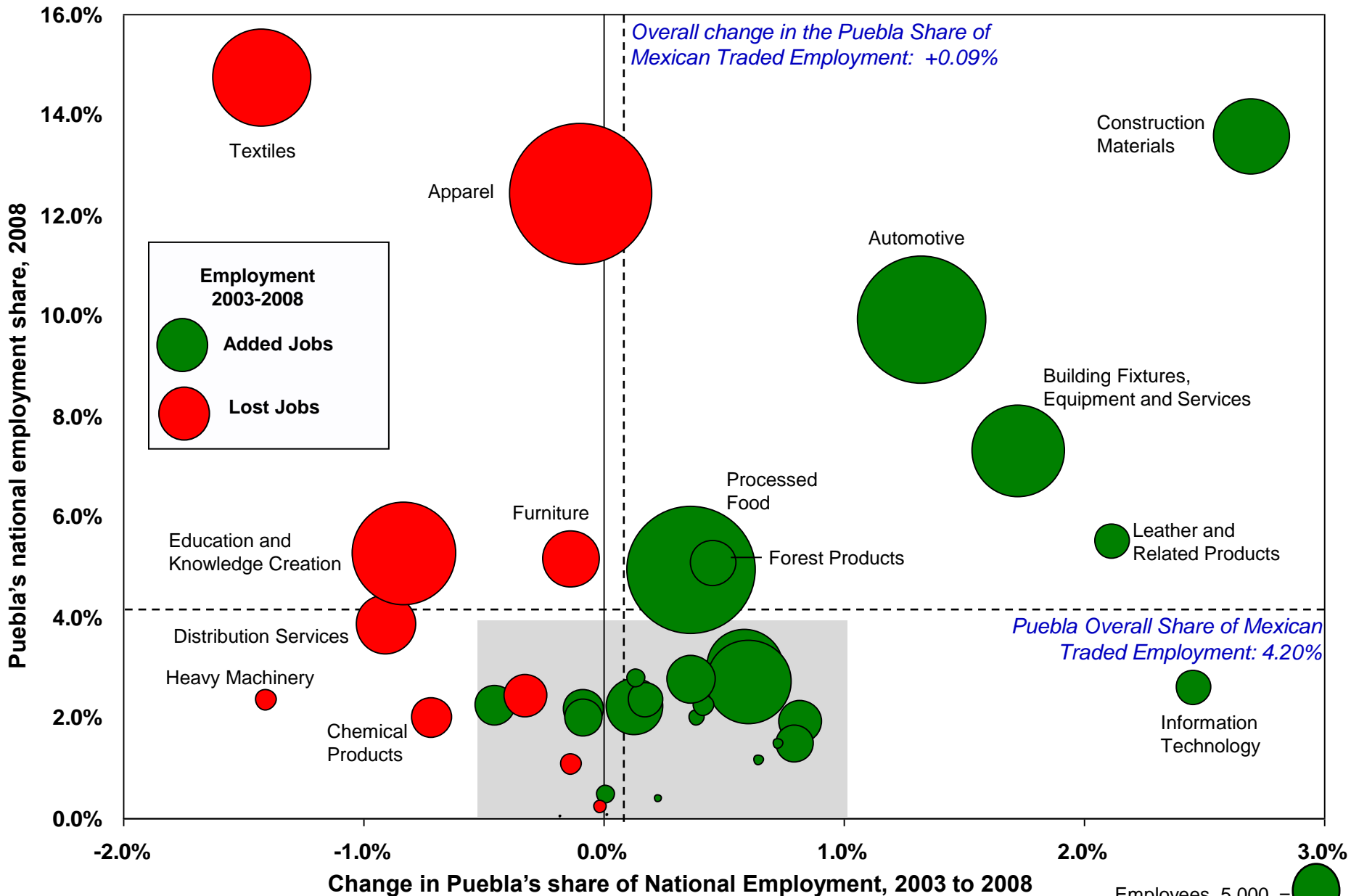


- Regions are the **most important economic unit for competitiveness** in larger countries, especially countries beyond subsistence development

Prosperity of Mexican States



Traded Cluster Composition of the Puebla Economy



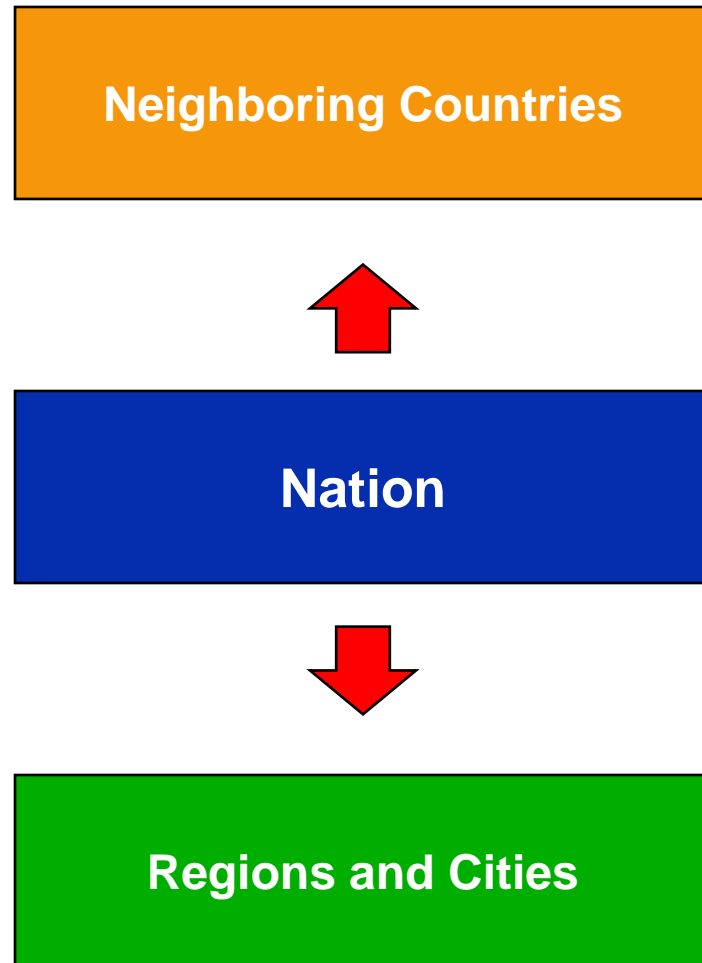
The Role of Regions in Economic Development

- Many essential levers of competitiveness reside at the **regional level**
- Regions **specialize** in different sets of clusters



- Regions are a **critical unit** in competitiveness
- Each region needs its own distinctive **strategy and action agenda**
 - Business environment improvement
 - Cluster upgrading
 - Improving institutional effectiveness

Geographic Influences on Competitiveness



- Economic coordination and integration with neighboring countries is a **major force of productivity and competitiveness**

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Social Development

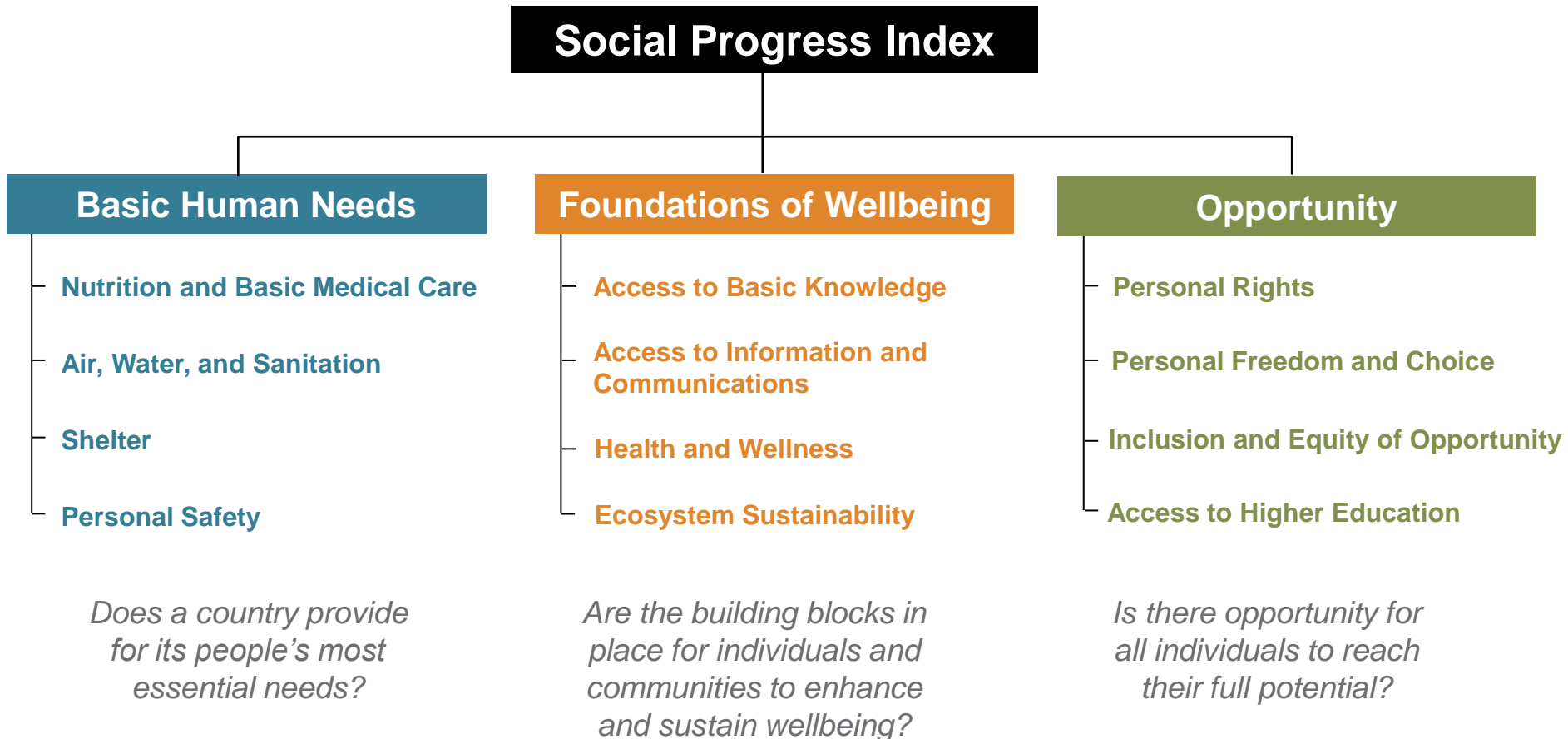
What is Social Progress?

Social progress is the capacity of a society to meet the **basic human needs** of its citizens, establish the **building blocks** that allow citizens and communities to enhance and sustain the quality of their lives, and create the **conditions for all individuals to reach their full potential**

Driving Social Development

- Economic progress has a **positive impact** on social progress, but rising GDP per Capita **does not guarantee** social progress
- We must measure social progress **directly** in order to understand performance and inform improvement
- The **Social Progress Index** is a new tool to do so
 - Separate from economic indicators
 - Holistic framework
 - Outcomes rather than inputs
 - Relevant to all countries
- By separating social and economic progress, we can **better** understand **overall** country performance and how social and economic performance are **linked**

Social Progress Index Model

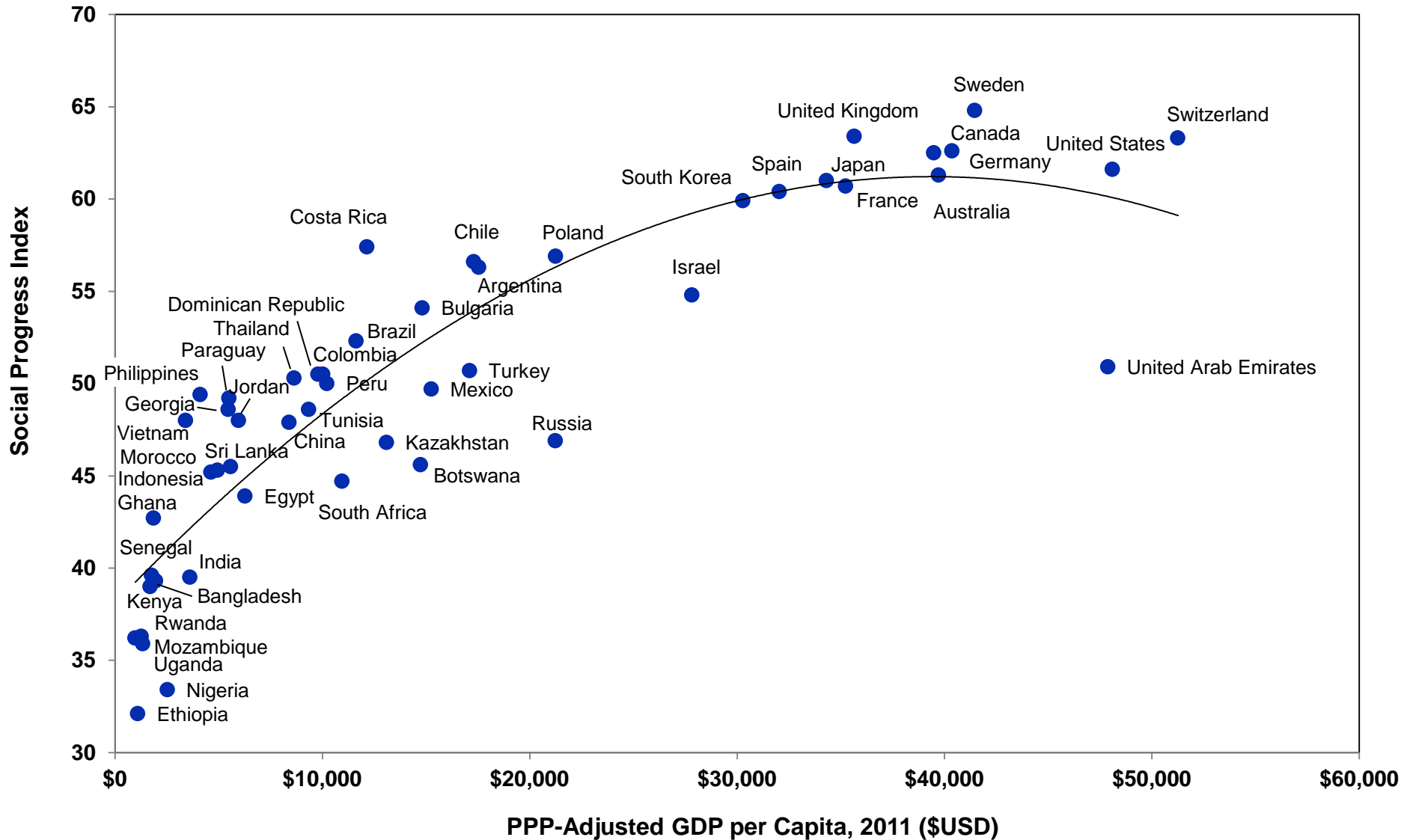


Social Progress Index: 2013 Rankings

1. Sweden
2. United Kingdom
3. Switzerland
4. Canada
5. Germany
6. United States
7. Australia
8. Japan
9. France
10. Spain
11. Korea, Rep.
- 12. Costa Rica**
13. Poland
- 14. Chile**
- 15. Argentina**
16. Israel
17. Bulgaria
- 18. Brazil**
19. United Arab Emirates
20. Turkey
- 21. Dominican Republic**
- 22. Colombia**
23. Thailand
- 24. Peru**
- 25. Mexico**

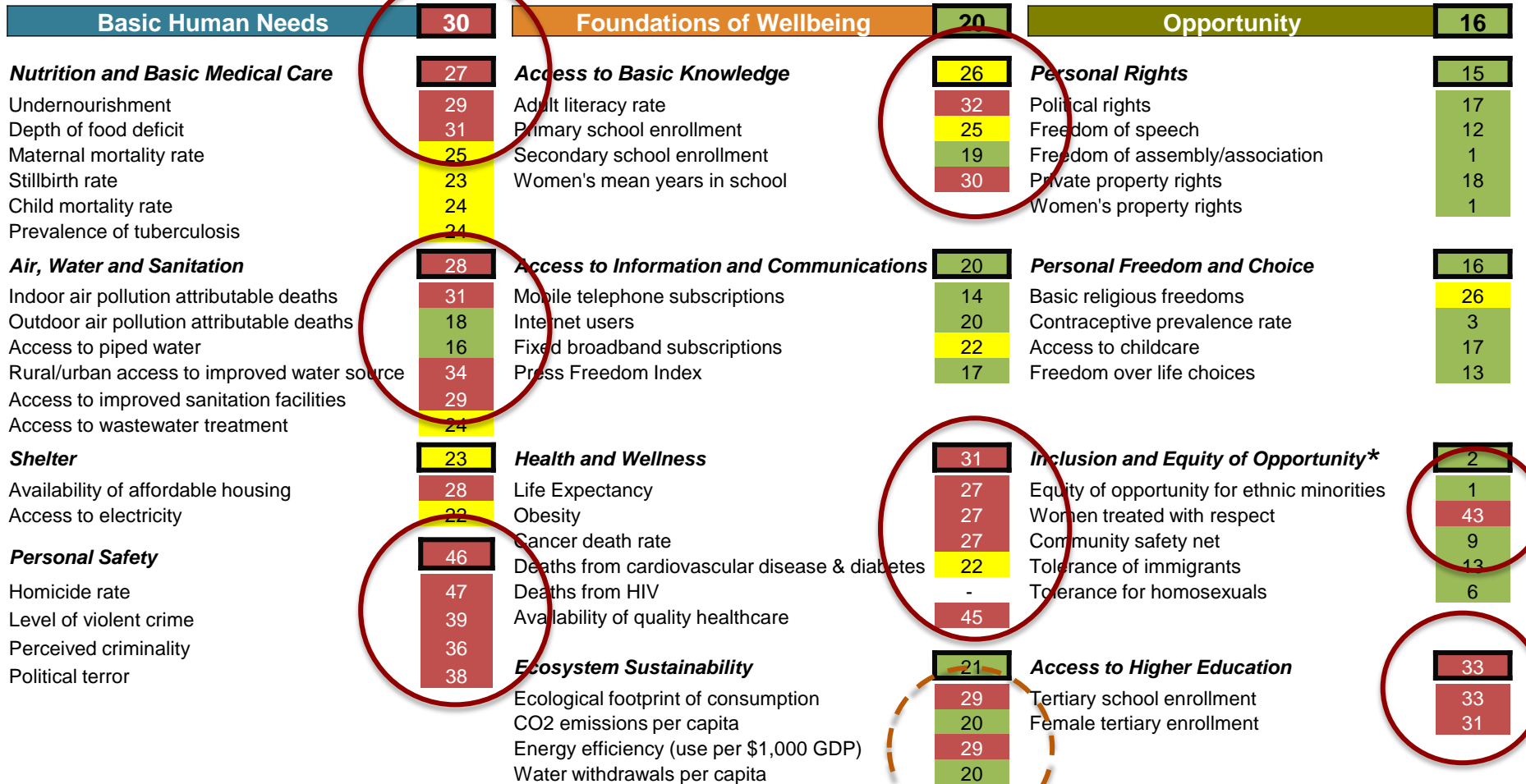
26. Philippines
- 27. Paraguay**
28. Tunisia
29. Georgia
30. Viet Nam
31. Jordan
32. China
33. Russian Federation
34. Kazakhstan
35. Botswana
36. Sri Lanka
37. Morocco
38. Indonesia
39. South Africa
40. Egypt, Arab Rep.
41. Ghana
42. Bangladesh
43. India
44. Senegal
45. Kenya
46. Rwanda
47. Mozambique
48. Uganda
49. Nigeria
50. Ethiopia

Social Progress Index vs. GDP per Capita



Brazil Social Progress Scorecard

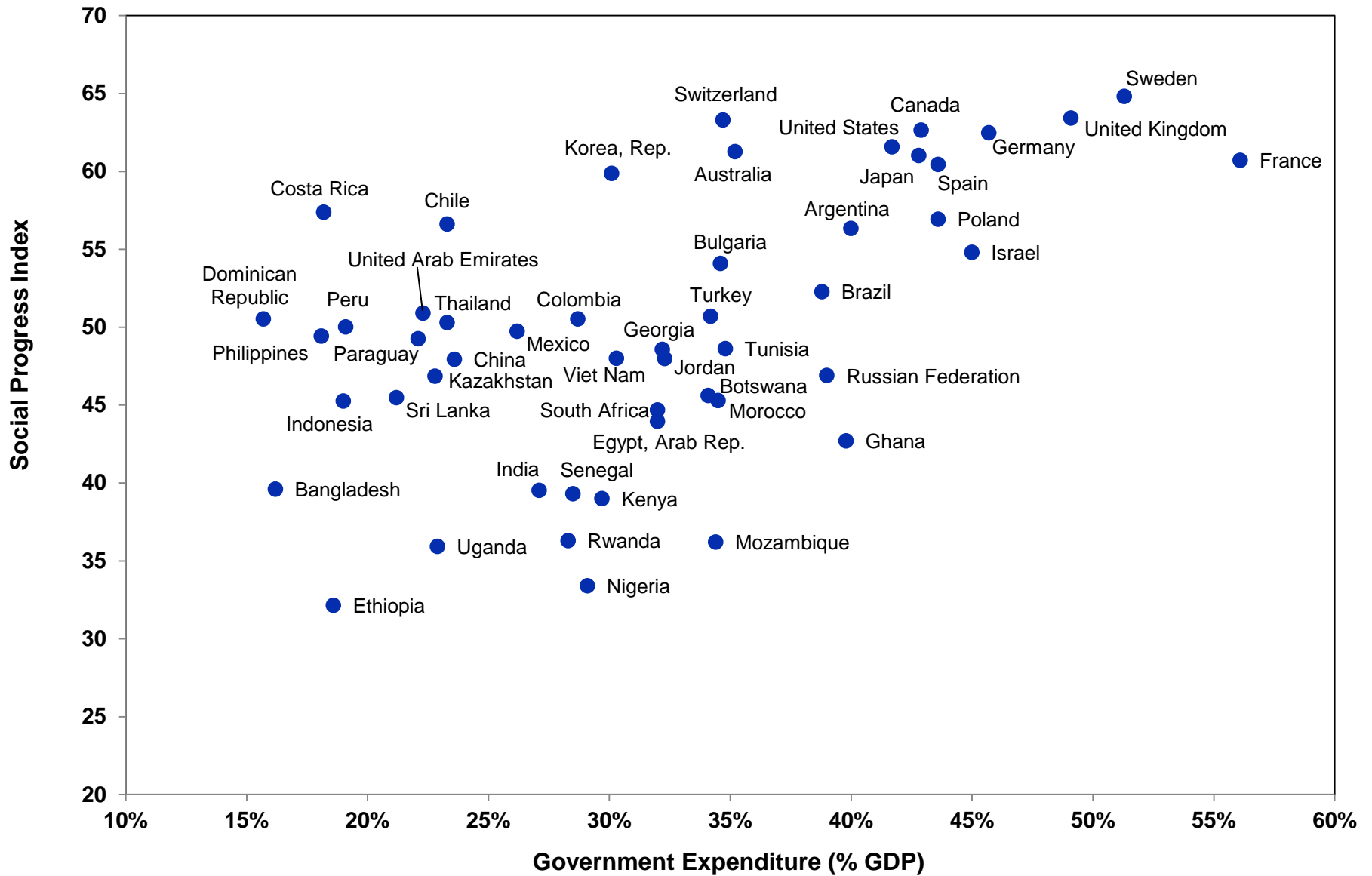
Overall Rank 18



Brazil GDP per capita rank is 24th among sample of 50 countries

*Safety net, tolerance and respect for minorities, women, and disadvantaged

Social Progress vs. Government Expenditure (% of GDP)



The Social Progress Index: Key Findings

- Economic development is **necessary but not sufficient** as a measure of national performance
- Just as economic development helps social progress, social progress can enable **sustainable economic development**
- Some approaches to economic development are **less effective** than others in advancing social progress, and even counterproductive, and vice versa
- The amount of government spending (as a percent GDP) is an **incomplete explanation** for social progress performance

The Social Progress Imperative: Driving to Action

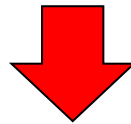
The Social Progress Imperative is not just an Index, but a global effort designed to **catalyze action at the country level**. It aims to form and support National Committees of leaders and stakeholders in each country, and work jointly with them to mobilize policy changes and private sector initiatives to advance social progress.

Economic and Social Development: The New Learning

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3. **Business as a Driver of Social and Economic Development**

The Role of Business in Society

- Only business can **create wealth** and **prosperity**
- Business is facing **growing scrutiny** as the cause or contributor to many of today's societal challenges, not the solution
- Corporate social responsibility efforts are greater than ever, but the **legitimacy of business has fallen**
- Government and NGO's alone **lack sufficient resources and capabilities** to fully meet social challenges



We need a **new approach**

The Role of Business in Society

Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of Business in Society

Evolving Approaches



The Role of Business in Society

Evolving Approaches



CSR versus Shared Value

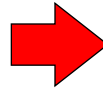
Fair Trade



CSR

Fair Trade

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



CSV

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

Social Needs and Economic Value Creation



- **Social** deficits and **environmental** impact create **economic** costs for companies
- **Community** weaknesses affect company productivity
- Social needs represent the **largest market opportunities**

Levels of Shared Value

- I. Meeting social needs through **products** and **underserved** customers
- II. Redefining **productivity in the value chain**
- III. Improving the **local and regional business environment**

Creating Shared Value in Products and Markets

Jain Irrigation Systems

- **Drip irrigation equipment** for small farmers in Africa and India
- Serves **more than 4 million farmers** worldwide as of 2012



- Reduces **water use** by over 40%
- Enables **higher crop yields** that improve food security while raising farmers' income
- Jain is now a **\$820 million** company that is rapidly growing

Creating Shared Value in Products and Markets

Becton Dickinson Health Worker Safety

- There is pressing need to protect health workers from **needle stick injuries** that spread HIV and other infections
- BD redesigned syringes to **prevent** accidental sticks



- Substantial **reduction in health worker injuries**
- **\$2 billion** in revenues in 2012, representing 25% of the company's revenues
- Largest source of **company growth** over the past two decades

Shared Value in the Value Chain

Fibria, Brazil

- Fibria, the world's leading manufacturer of chemical pulp, utilizes **planted eucalyptus trees** rather than native and old growth forests, and cultivation methods that incorporate partial native habitat
- The company also encourages **small-scale producers** near its mills to plant eucalyptus in conjunction with other crops, assisting them with technical training and inputs



- Fibria achieves far greater land and water efficiency versus old growth forest production and traditional methods
- Small scale producers currently contribute 27% of the **raw materials** utilized in Fibria mills, improving efficiency
- **4000 households** have significantly increased their income

Shared Value in the Value Chain

Consortio Panamá Frío, Panamá

- Consortio Panamá Frío, the largest food supplier in Panamá, is committed to strengthening the **cold value chain** while improving the productivity of its suppliers
- The company provides technical assistance to **farmers** to enable them to meet minimum quality standards and efficient flow of products to Consortio's collection centers



- The company has **reduced waste** of perishable food products and improved **quality**
- Farmers have achieved an average of **21% improvement in good agriculture** practices, **26% improvement in proper use of agricultural supplies** and **68% improvement in cash management**

Improving the Business Environment: Upgrading Channels

Arca Continental

- Arca Continental is the **second largest bottling company** in Latin America, and **one of the largest Coca-Cola bottlers** in the world
- Arca Continental established a program to train and invest in the **micro-entrepreneur retailers** who sell more than 60% of the Company's products, including **management, sales and marketing** and **merchandising**
- Invests in **low energy use coolers** and **fixture improvements**



- Participating retailers register **sales increases of 25%** or more, with improved customer satisfaction, leading to similar **increases in the sales of Arca's products**
- Arca Continental **recovers its investment** in 6 months or less
- Beginning in **Mexico**, the program is being extended to **Argentina** and **Ecuador**

Integrating Across Levels

Novartis in Rural India

Reconceiving Products and Markets

- Portfolio of the **appropriate and affordable medicines** from the company's patented, generics, and over-the-counter (OTC) businesses
- Packaging of OTC medicines to address consumers' limited ability to spend out-of-pocket on healthcare

Redefining Productivity in Value Chain

- **Local sales teams** that know the culture and speak the dialect, understand needs and reduce mistrust
- A dense **network of local distributors** to reduce stock-outs

Enabling Local Cluster Development

- A **community health education** program to address lack of health-seeking behavior
- **Frequent health camps** for physicians in rural areas
- **Microfinance partners** to improve healthcare infrastructure and access to working capital

New Stakeholder Roles and Relationships

- The focus on social impact **unites the goals** of companies, NGOs, and government
- Shared value fosters **new relationships** between companies, philanthropists, NGOs, and government in addressing social issues

Traditional Roles

NGOs

- Receive grants to deliver social services

Governments

- Tax and regulate business; operate social programs

Philanthropists

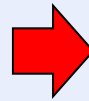
- Donate to charitable causes

New Roles

- Partner in implementing new shared value business models

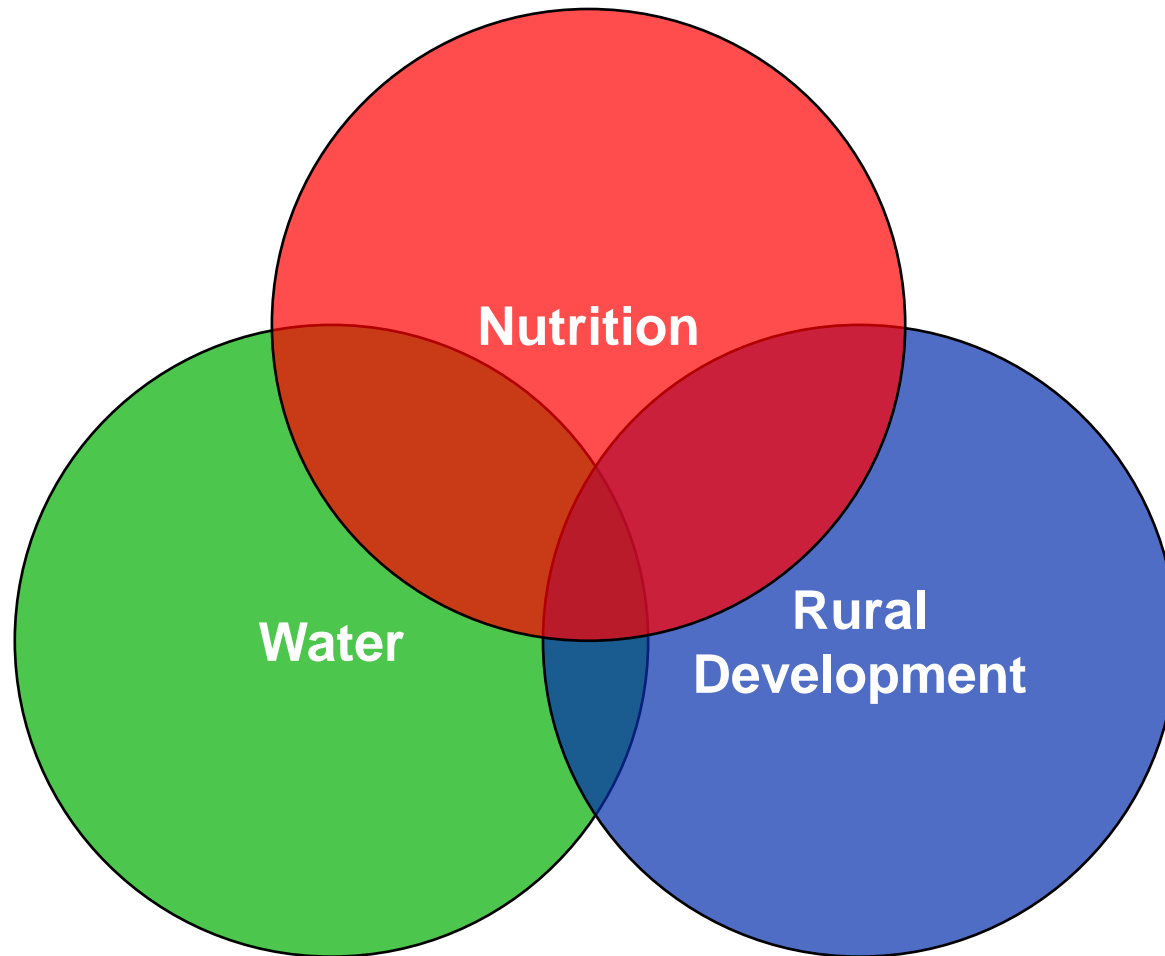
- Make platform investments and support shared value strategies; regulate to encourage shared value solutions

- Partner with companies and NGOs to catalyze shared value initiatives



Creating Shared Value: Deciding Where to Concentrate

Nestlé

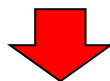


- Opportunities to create shared value are **inevitably tied closely** to a company's particular businesses

Putting Shared Value Into Practice

Dow Chemical

- Dow has a legacy of **innovation to solve problems** (“solutionism”)
- It recognized that global social issues represent **huge market opportunities**
- The “**Breakthroughs to World Challenges**” program was created
 - Each business unit is challenged to apply “solutionism” to a **range of global problems** inspired by the MDGs



Example

- Dow developed **Omega-9 canola and sunflower seeds** that produce cooking oil with no trans fats and low saturated fats
- The technology yields **twice the oil per hectare** for farmers than soybeans
- The oils have **longer** shelf life and usage life for food processors



- One of Dow’s biggest selling product lines with total revenues of approximately **\$700 million**

Shared Value and Company Strategy

Whole Foods Markets

Value Proposition

- Natural, fresh, organic, and freshly prepared foods and health items with excellent service at premium prices
- Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
- Serve educated customers who are passionate about food and a healthy lifestyle

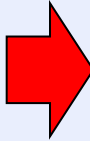
Distinctive Activities

- 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 if needed
- Nutrition 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, sustainability and price from the boat to the counter
- Heavy emphasis on environmental sustainability in all activities
- Emphasis on supporting community development



- Whole Foods is the most **economically successful** food retailer in North America
- Successful strategies in the future will embody a significant **shared value dimension**

Purpose Based Strategic Positioning

	<u>Traditional Positioning</u>		<u>New Positioning</u>
Nestlé	<ul style="list-style-type: none">• Food and Beverage Company		<ul style="list-style-type: none">• Nutrition Company
Nike	<ul style="list-style-type: none">• Footwear and Apparel Company		<ul style="list-style-type: none">• Health and Fitness Company
Thermo Fisher	<ul style="list-style-type: none">• Scientific and Laboratory Instruments Company		<ul style="list-style-type: none">• Making the World Healthier, Cleaner, and Safer

- A **clear social purpose** opens up new opportunities for growth and profitability, while motivating and attracting consumers, business partners, employees, shareholders, and the public

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**
- A transformation of business practice around shared value will give **purpose** to the corporation and represents our best chance to **legitimize business again**