

Economic and Social Development: The New Learning

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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



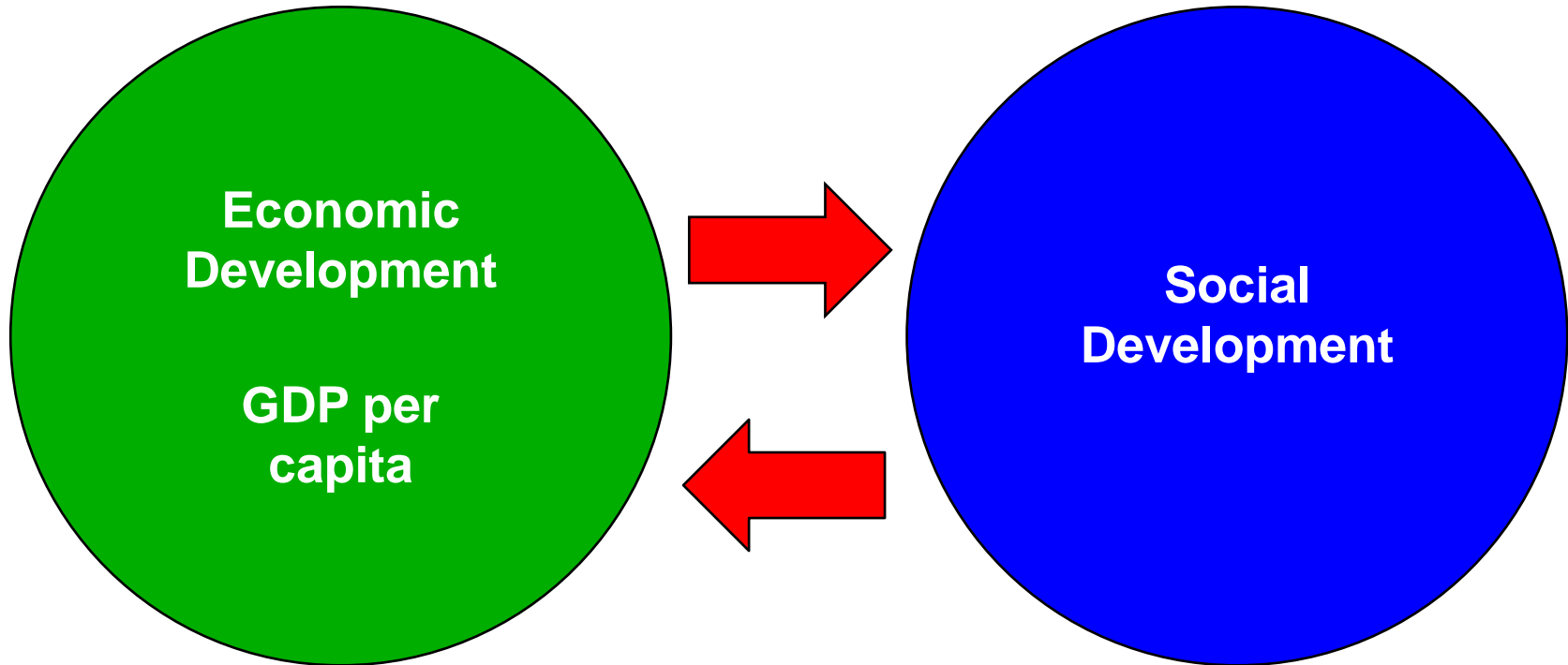
**Economic
Development**

**GDP per
capita**



**Social
Development**

The Dual Challenges of Development

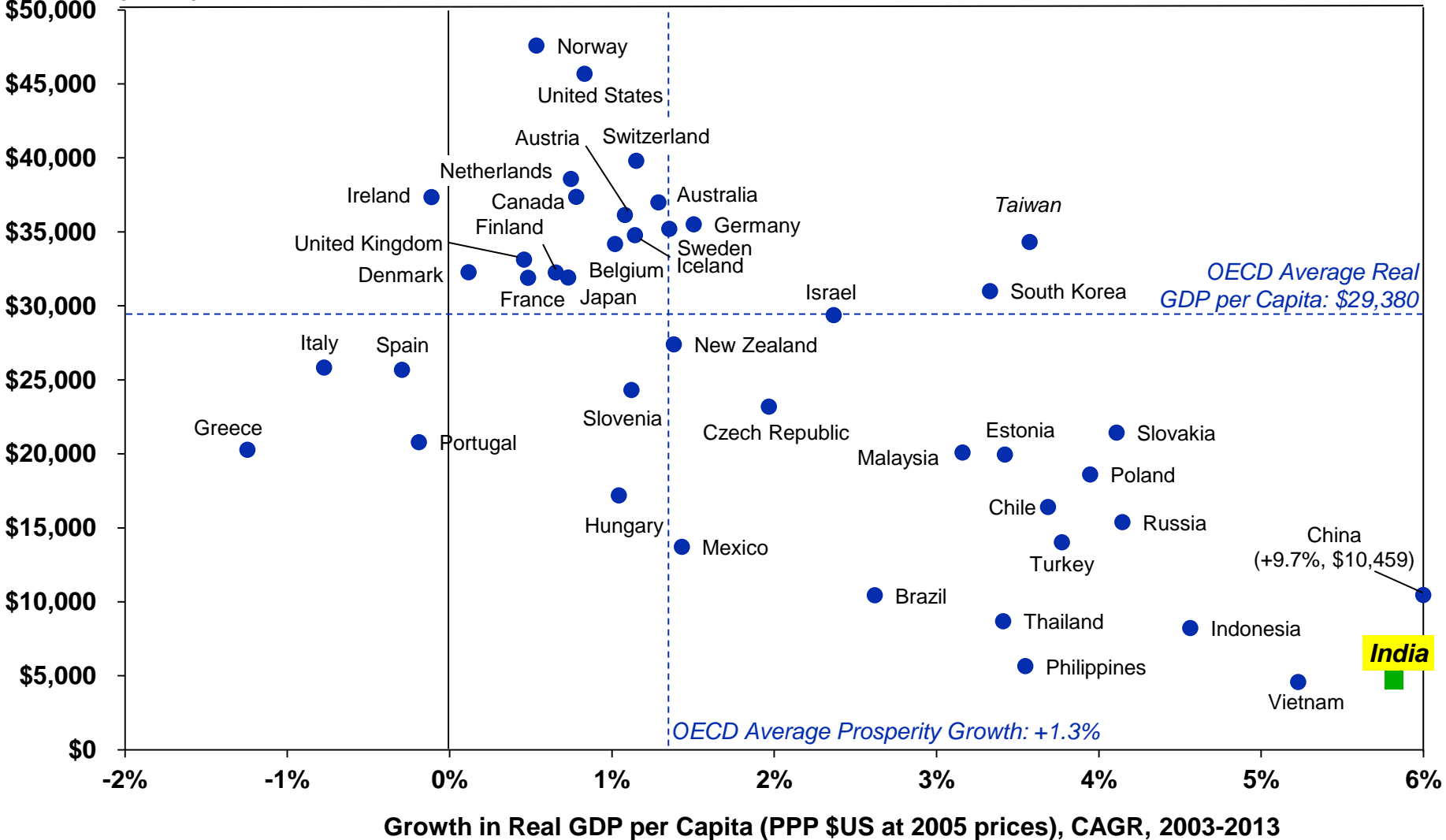


- There is a powerful connection between **economic** and **social** development, that goes in **both directions**
- Successful development requires improving the economic and social context **simultaneously**

Economic Performance

Selected Countries

PPP-Adjusted Real GDP
per Capita, 2013 (\$USD
at 2005 prices)



Note: Luxembourg omitted from OECD average.
Source: EIU (2014), authors calculations
20140926—Porter Prize India Development Presentation—FINAL

Economic Development Depends on Competitiveness

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

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

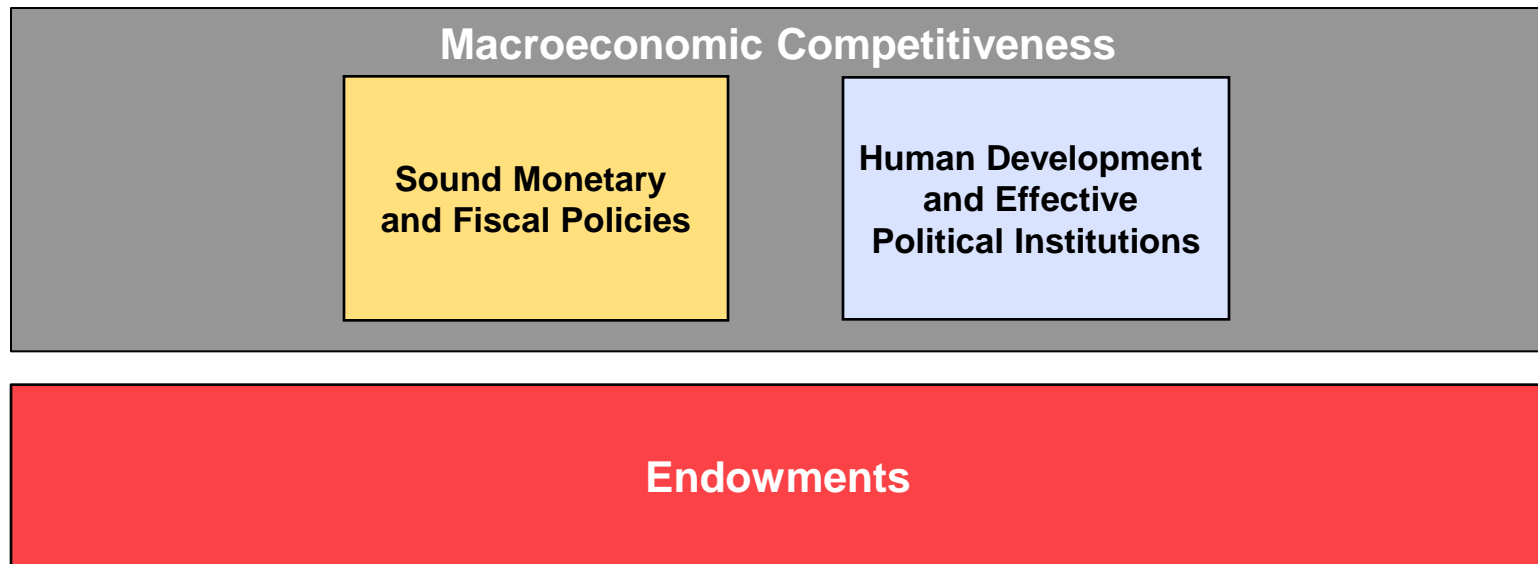
What Determines Competitiveness?



Endowments

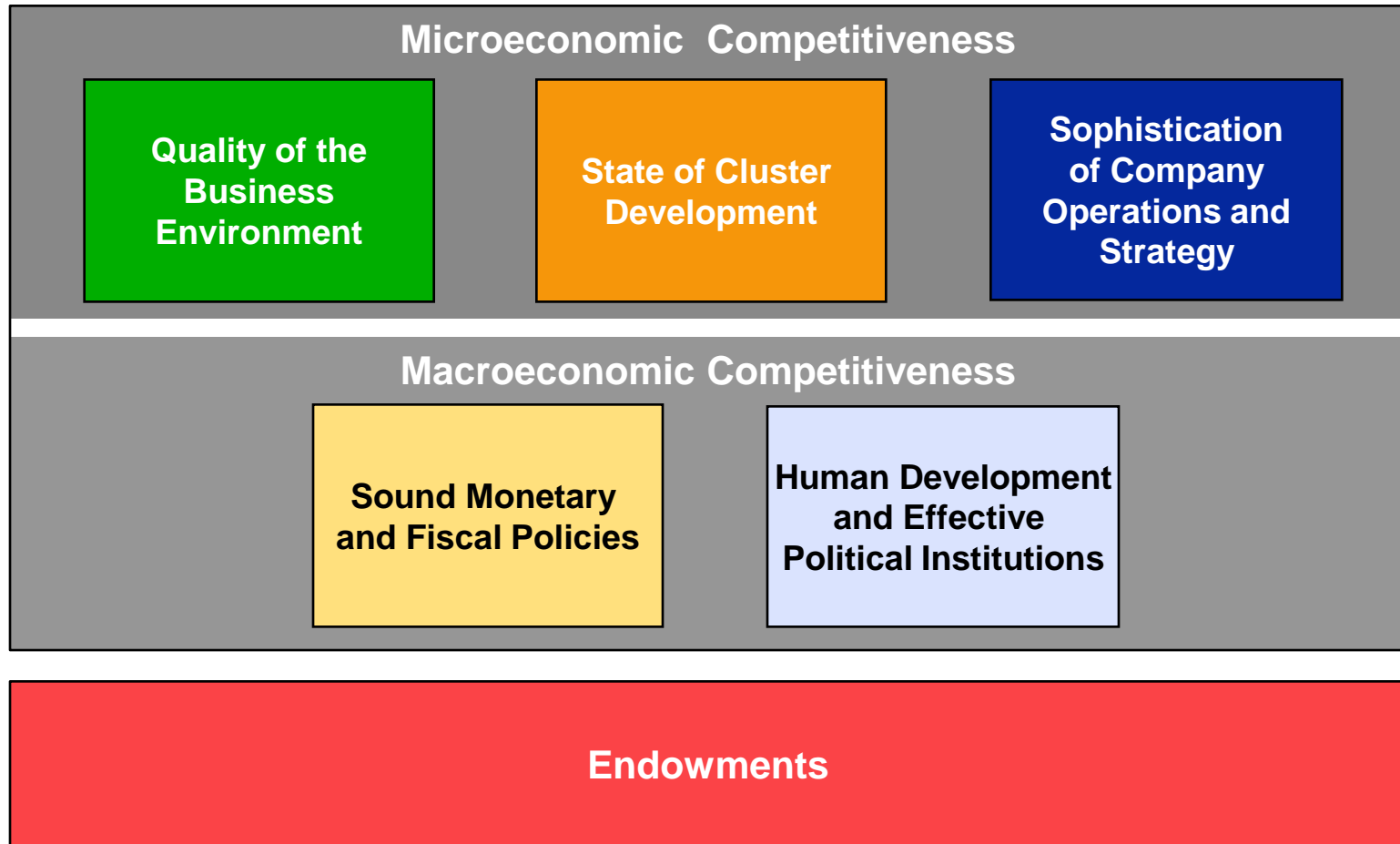
- Endowments, including **natural resources**, **geographical location**, **population**, and **land area**, create a foundation for prosperity, but true prosperity arises from **productivity in the use of endowments**

What Determines Competitiveness?



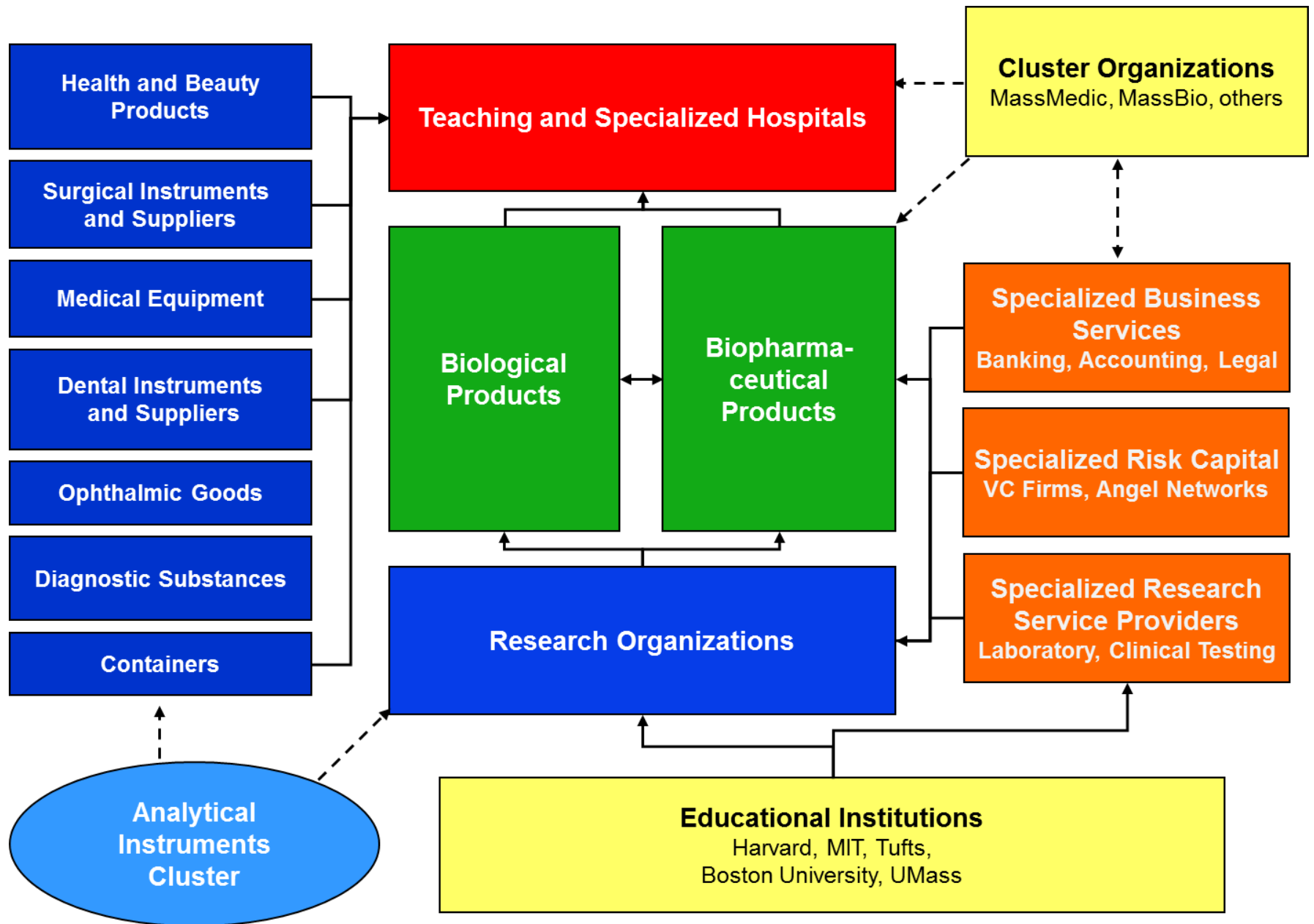
- Macroeconomic competitiveness sets the **economy-wide** context for productivity to emerge, but is **not sufficient** to ensure productivity
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What Determines Competitiveness?

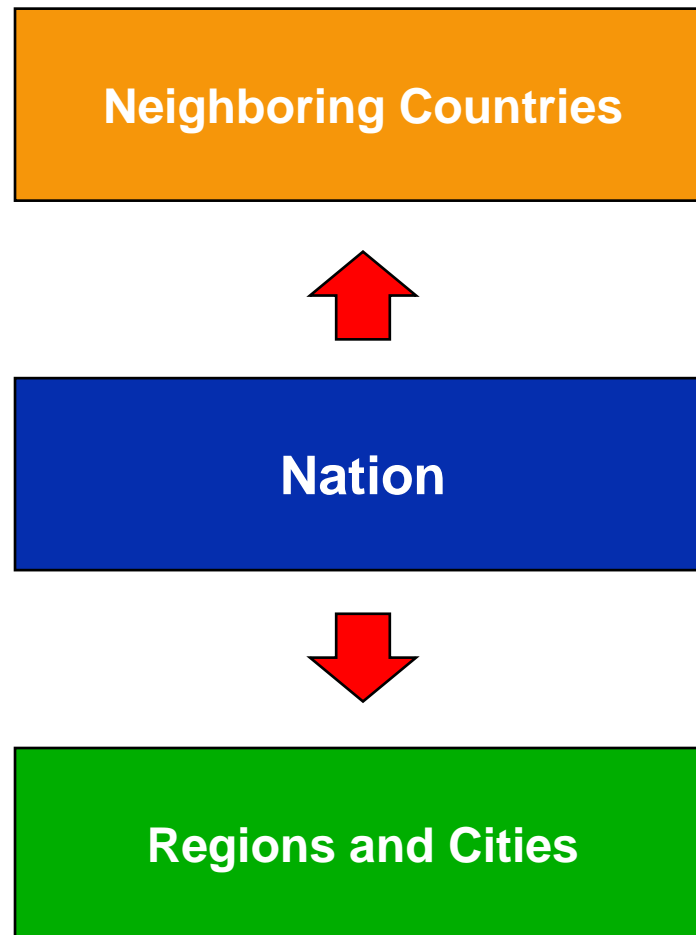


- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition** revealed at the level of firms, clusters, and regions
- Macroeconomic competitiveness sets the **economy-wide** context for productivity to emerge, but is **not sufficient** to ensure productivity
- Endowments, including **natural resources**, **geographical location**, **population**, and **land area**, create a foundation for prosperity, but true prosperity arises from **productivity in the use of endowments**

Massachusetts Life Science Cluster

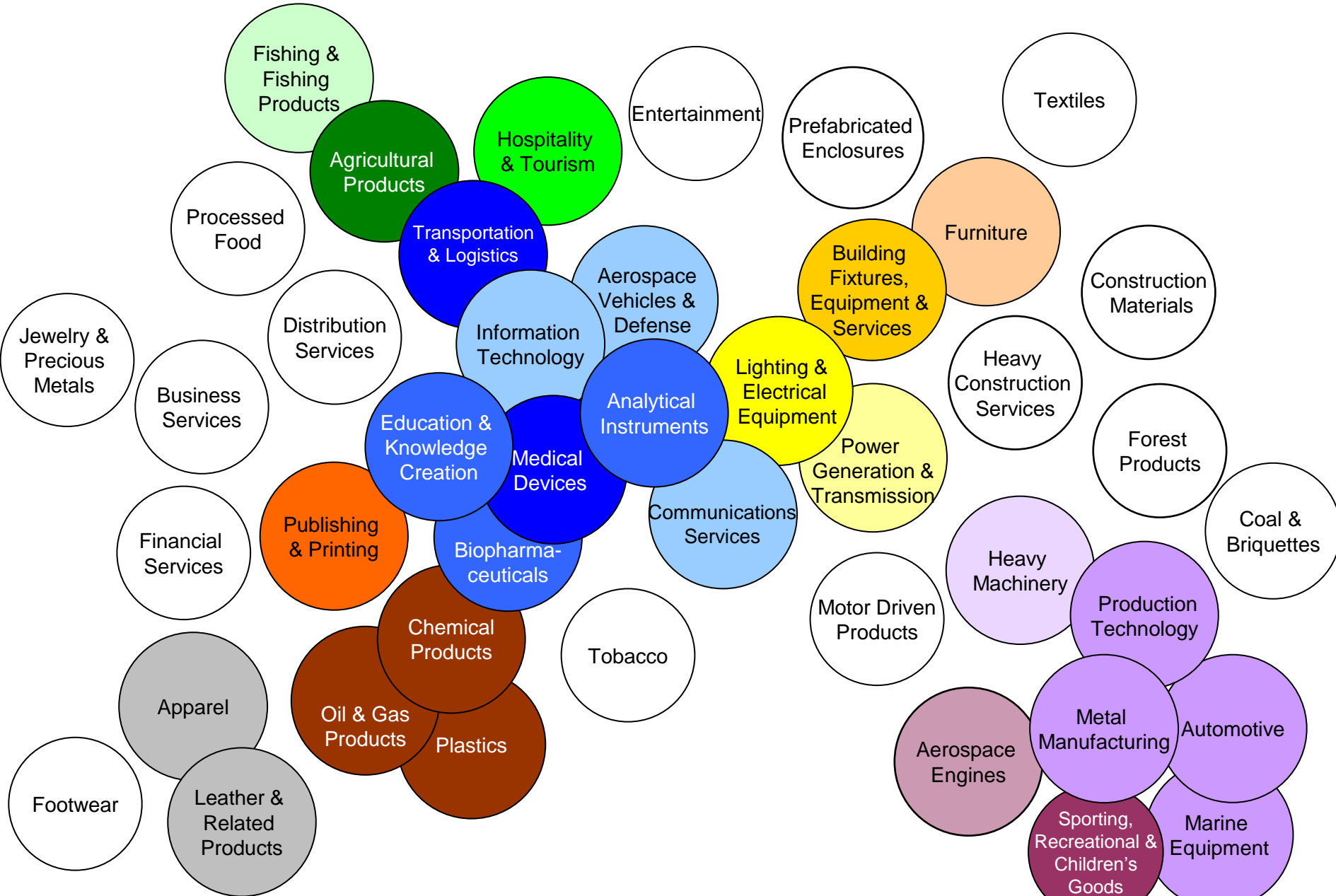


Geographic Influences on Competitiveness



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

Related Clusters and Economic Diversification



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

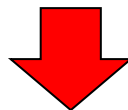
The Need to Go Beyond GDP

- There has been a growing recognition that we need to **move beyond** measuring only the **economic performance** of countries:

“In an increasingly performance-oriented society, metrics matter. What we measure affects what we do. If we have the wrong metrics, we will strive for the wrong things”

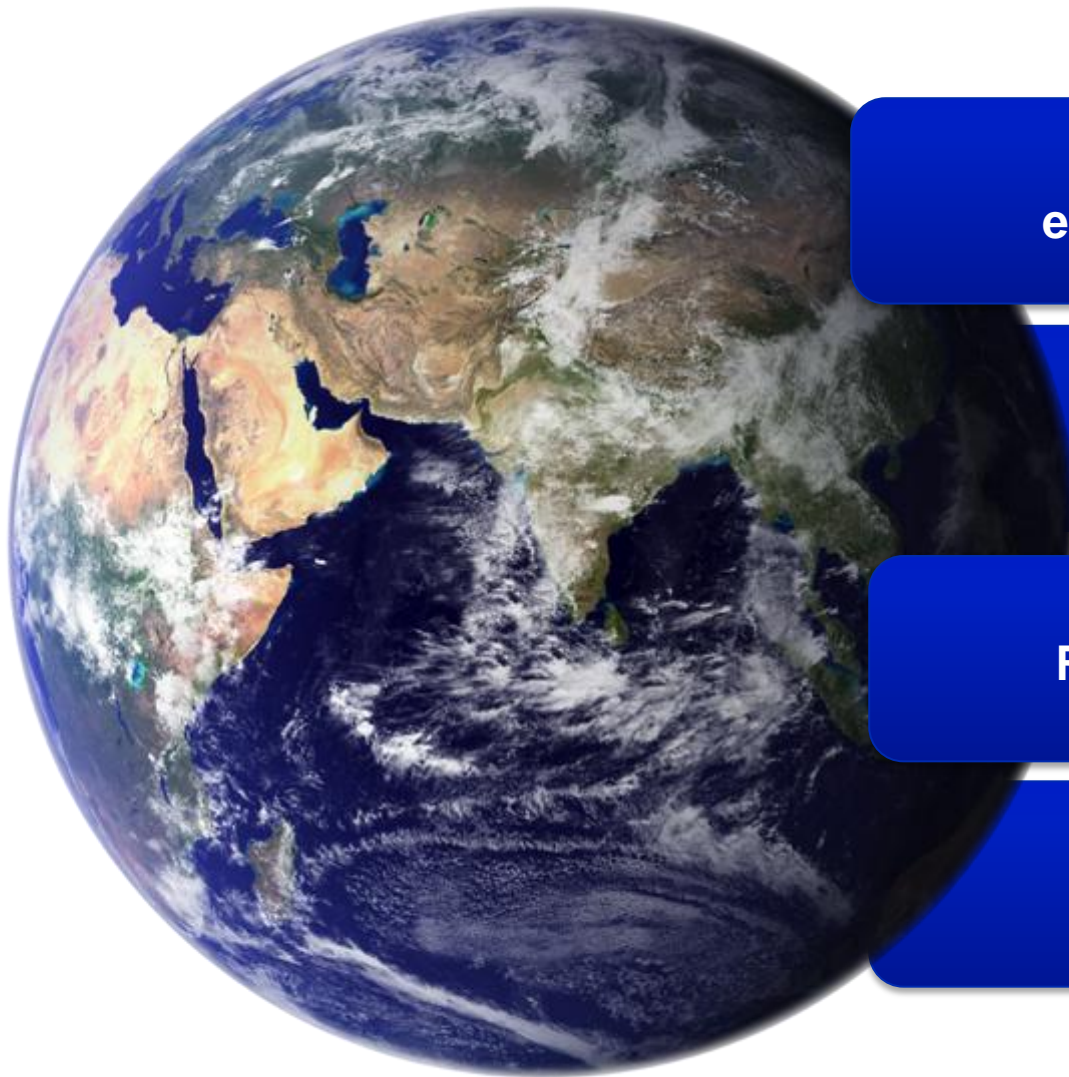
Jean-Paul Fitoussi, Amartya Sen, Joseph Stiglitz, Mismeasuring Our Lives

- Starting with the Human Development Index, there have been a **number of efforts** to add additional measures
- More recently, there has also been a focus on **life satisfaction/happiness**



- The Social Progress Index builds on these efforts to broaden measurement of national performance to social factors

Social Progress Index: Design Principles



Exclusively social and environmental indicators

Outcomes – not inputs

Relevant to all countries

Actionability

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.**



A holistic framework is needed

Social Progress Index Model 2014

Social Progress Index

Basic Human Needs

- Nutrition and Basic Medical Care
- Water and Sanitation
- Shelter
- Personal Safety

Does a country provide for its people's most essential needs?

Foundations of Wellbeing

- Access to Basic Knowledge
- Access to Information and Communications
- Health and Wellness
- Ecosystem Sustainability

Are the building blocks in place for individuals and communities to enhance and sustain wellbeing?

Opportunity

- Personal Rights
- Personal Freedom and Choice
- Tolerance and Inclusion
- Access to Advanced Education

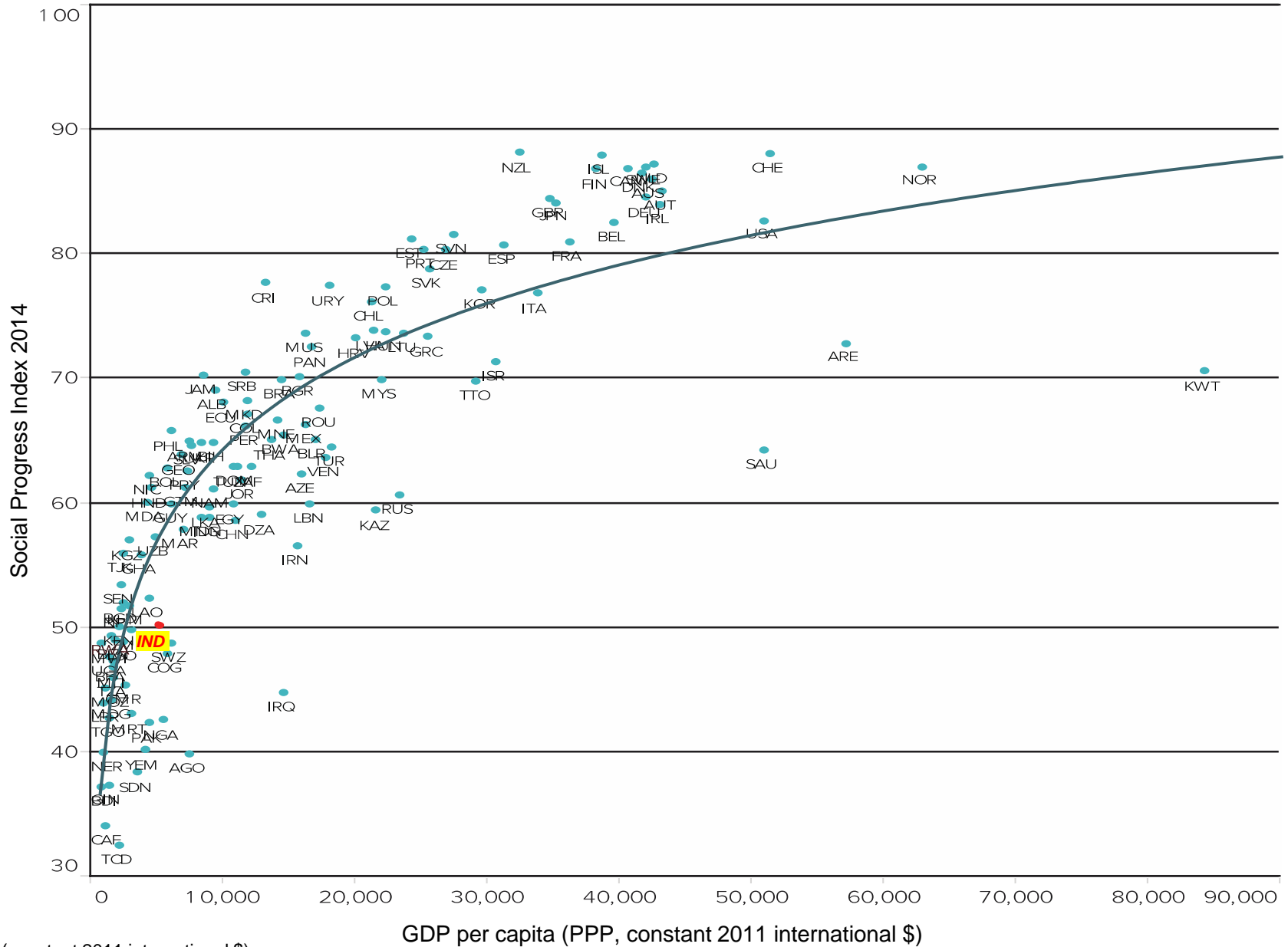
Is there opportunity for all individuals to reach their full potential?

The Social Progress Index 2014

RANK	SCORE	COUNTRY	PPP GDP PER CAPITA*	RANK	SCORE	COUNTRY	PPP GDP PER CAPITA	RANK	SCORE	COUNTRY	PPP GDP PER CAPITA	RANK	SCORE	COUNTRY	PPP GDP PER CAPITA
1	88.24	New Zealand	\$32,360	34	73.68	Mauritius	\$16,194	67	63.78	Venezuela	\$17,642	100	51.89	Cambodia	\$2,789
2	88.19	Switzerland	\$51,293	35	73.43	Greece	\$25,391	68	63.03	Dominican Republic	\$11,016	101	51.58	Nepal	\$2,131
3	88.07	Iceland	\$38,553	36	73.31	Croatia	\$19,946	69	62.96	South Africa	\$10,612	102	50.24	India	\$5,050
4	87.37	Netherlands	\$42,453	37	72.92	United Arab Emirates	\$57,045	69	62.96	Tunisia	\$11,989	103	50.20	Kenya	\$2,109
5	87.12	Norway	\$62,858	38	72.58	Panama	\$16,655	71	62.90	Bolivia	\$5,650	104	49.88	Zambia	\$2,990
6	87.08	Sweden	\$41,840	39	71.40	Israel	\$30,600	72	62.65	Paraguay	\$7,215	105	49.46	Rwanda	\$1,379
7	86.95	Canada	\$40,588	40	70.66	Kuwait	\$84,188	73	62.44	Azerbaijan	\$15,888	106	49.11	Benin	\$1,687
8	86.91	Finland	\$38,104	41	70.61	Serbia	\$11,587	74	62.33	Nicaragua	\$4,254	107	48.94	Lesotho	\$2,368
9	86.55	Denmark	\$41,524	42	70.59	Argentina	-	75	61.92	Jordan	\$11,340	108	48.87	Swaziland	\$5,912
10	86.10	Australia	\$42,278	43	70.39	Jamaica	\$8,421	76	61.37	Guatemala	\$6,990	109	48.79	Malawi	\$739
11	85.11	Austria	\$43,139	44	70.24	Bulgaria	\$15,738	77	61.28	Honduras	\$4,423	110	47.99	Congo, Republic of	\$5,631
12	84.61	Germany	\$41,966	45	70.00	Malaysia	\$21,897	78	61.19	Namibia	\$9,136	111	47.75	Uganda	\$1,334
13	84.56	United Kingdom	\$34,694	46	69.97	Brazil	\$14,301	79	61.07	Cuba	-	112	47.33	Burkina Faso	\$1,528
14	84.21	Japan	\$35,006	47	69.88	Trinidad and Tobago	\$29,086	80	60.79	Russia	\$23,184	113	46.85	Mali	\$1,607
15	84.05	Ireland	\$42,919	48	69.13	Albania	\$9,243	81	60.12	Moldova	\$4,146	114	46.06	Tanzania	\$1,654
16	82.77	United States	\$50,859	49	68.33	Macedonia	\$11,708	82	60.06	Guyana	\$6,054	115	45.95	Djibouti	-
17	82.63	Belgium	\$39,498	50	68.15	Ecuador	\$9,900	83	60.05	Lebanon	\$16,509	116	45.51	Cameroon	\$2,551
18	81.65	Slovenia	\$27,394	51	67.72	Romania	\$17,234	84	59.97	Egypt	\$10,685	117	45.23	Mozambique	\$971
19	81.28	Estonia	\$24,195	52	67.24	Colombia	\$11,687	85	59.71	Sri Lanka	\$8,862	118	44.84	Iraq	\$14,527
20	81.11	France	\$36,074	53	66.80	Montenegro	\$14,040	86	59.47	Kazakhstan	\$21,506	119	44.28	Madagascar	\$1,378
21	80.77	Spain	\$31,198	54	66.41	Mexico	\$16,144	87	59.13	Algeria	\$12,779	120	44.02	Liberia	\$782
22	80.49	Portugal	\$25,096	55	66.29	Peru	\$11,603	88	58.98	Indonesia	\$8,856	121	43.11	Mauritania	\$2,938
23	80.41	Czech Republic	\$26,733	56	65.86	Philippines	\$6,005	89	58.97	Mongolia	\$8,288	122	42.80	Togo	\$1,286
24	78.93	Slovakia	\$25,537	57	65.60	Botswana	\$14,443	90	58.67	China	\$10,771	123	42.65	Nigeria	\$5,440
25	77.75	Costa Rica	\$13,091	58	65.20	Belarus	\$16,868	91	58.01	Morocco	\$6,878	124	42.40	Pakistan	\$4,360
26	77.51	Uruguay	\$17,966	59	65.14	Thailand	\$13,586	92	57.34	Uzbekistan	\$4,705	125	40.23	Yemen	\$3,996
27	77.44	Poland	\$22,143	60	65.03	Armenia	\$7,291	93	57.08	Kyrgyzstan	\$2,847	126	40.10	Niger	\$884
28	77.18	Korea, Republic of	\$29,495	61	64.99	Bosnia and Herzegovin	\$9,184	94	56.65	Iran	\$15,461	127	39.93	Angola	\$7,346
29	76.93	Italy	\$33,668	62	64.91	Ukraine	\$8,332	95	56.05	Tajikistan	\$2,320	128	38.45	Sudan	\$3,370
30	76.30	Chile	\$21,099	63	64.70	El Salvador	\$7,445	96	55.96	Ghana	\$3,638	129	37.41	Guinea	\$1,216
31	73.91	Latvia	\$21,229	64	64.62	Turkey	\$18,167	97	53.52	Senegal	\$2,174	130	37.33	Burundi	\$737
32	73.87	Hungary	\$22,146	65	64.38	Saudi Arabia	\$50,791	98	52.41	Laos	\$4,388	131	34.17	Central African Republic	\$964
33	73.76	Lithuania	\$23,554	66	63.94	Georgia	\$6,691	99	52.04	Bangladesh	\$2,364	132	32.60	Chad	\$2,003

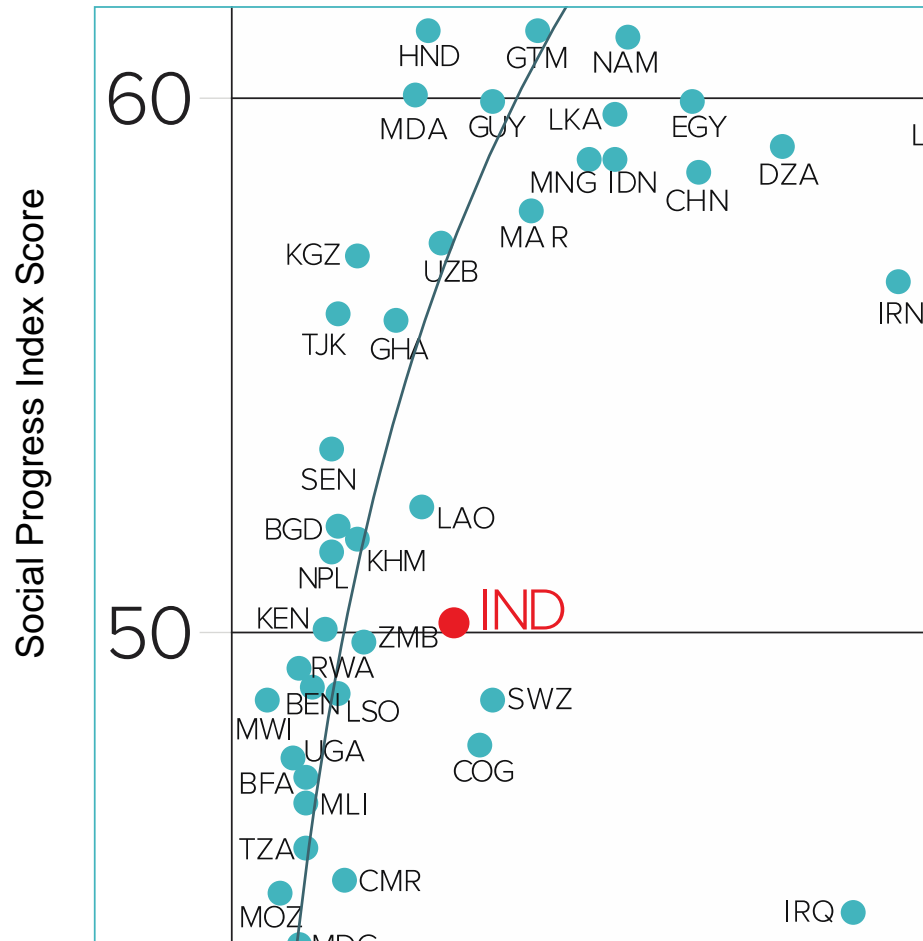
Note: *GDP per capita 2011 (Constant, 2011 International \$)

Social Progress Index vs. GDP per Capita (PPP)*



* (constant 2011 international \$)

Social Progress Performance India Vs. Peer Countries



- India is currently **under-performing** on Social Progress relative to its level of economic development

GDP per capita (PPP, constant 2011 international \$)

Social Progress Index Rank: 102

GDP per capita rank: 93

INDIA



BASIC HUMAN NEEDS			FOUNDATIONS OF WELLBEING			OPPORTUNITY		
	Score	Rank		Score	Rank		Score	Rank
BASIC HUMAN NEEDS	54.48	100	FOUNDATIONS OF WELLBEING	56.84	108	OPPORTUNITY	39.39	109
Nutrition and Basic Medical Care	75.69	97	Access to Basic Knowledge	77.80	95	Personal Rights	54.27	70
Undernourishment	17.50	97	Adult literacy rate	62.8	114	Political rights	2.0	37
Depth of food deficit	125	97	Primary school enrollment	93.3	70	Freedom of speech	1.0	14
Maternal mortality rate	200	94	Lower secondary school enrollment	86.5	89	Freedom of assembly/association	0.0	95
Stillbirth rate	22	100	Upper secondary school enrollment	54.8	91	Freedom of movement	3.0	67
Child mortality rate	56	101	Gender parity in secondary enrollment	0.9	95	Private property rights	50.0	36
Deaths from infectious diseases	363	97						
Water and Sanitation	51.85	100	Access to Information and Communications	39.87	110	Personal Freedom and Choice	54.52	118
Access to piped water	25	97	Mobile telephone subscriptions	69.9	106	Freedom over life choices	57.0	99
Rural vs. urban access to improved water source	6.8	64	Internet users	12.6	105	Freedom of religion	2.0	93
Access to improved sanitation facilities	35.1	108	Press Freedom Index	41.2	95	Modern slavery, human trafficking, child marriage	30.8	130
						Satisfied demand for contraception	80.0	75
						Corruption	36.0	74
Shelter	39.77	102	Health and Wellness	68.98	95	Tolerance and Inclusion	21.54	131
Availability of affordable housing	47	57	Life expectancy	66.0	98	Women treated with respect	61.0	68
Access to electricity	75.0	96	Non-communicable disease deaths between 30 and 70	27.0	90	Tolerance for immigrants	30.0	126
Quality of electricity supply	3.2	90	Obesity rate	1.9	4	Tolerance for homosexuals	11.0	85
Indoor air pollution attributable deaths	124.5	109	Outdoor air pollution attributable deaths	14.0	71	Discrimination and violence against minorities	8.2	112
			Suicide rate	25.2	126	Religious tolerance	1.0	118
						Community safety net	51.0	129
Personal Safety	50.64	95	Ecosystem Sustainability	40.72	100	Access to Advanced Education	27.24	91
Homicide rate	2.0	41	Greenhouse gas emissions	618.1	2	Years of tertiary schooling	0.2	80
Level of violent crime	3.0	56	Water withdrawals as a percent of resources	3.6	113	Women's average years in school	5.6	104
Perceived criminality	4.0	91	Biodiversity and habitat	39.2	99	Inequality in the attainment of education	0.4	103
Political terror	4.0	117				Number of globally ranked universities	3.0	12
Traffic deaths	18.9	84						

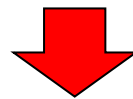
Relative Strength Neutral Relative Weakness

Note: Strengths and weaknesses are relative to 15 countries of similar GDP:

Uzbekistan; Nigeria; Congo, Republic of; Bolivia; Honduras; Laos; Pakistan; Nicaragua; Swaziland; Moldova; Philippines; Guyana; Yemen; Ghana; and Georgia

The Role of Business in Society

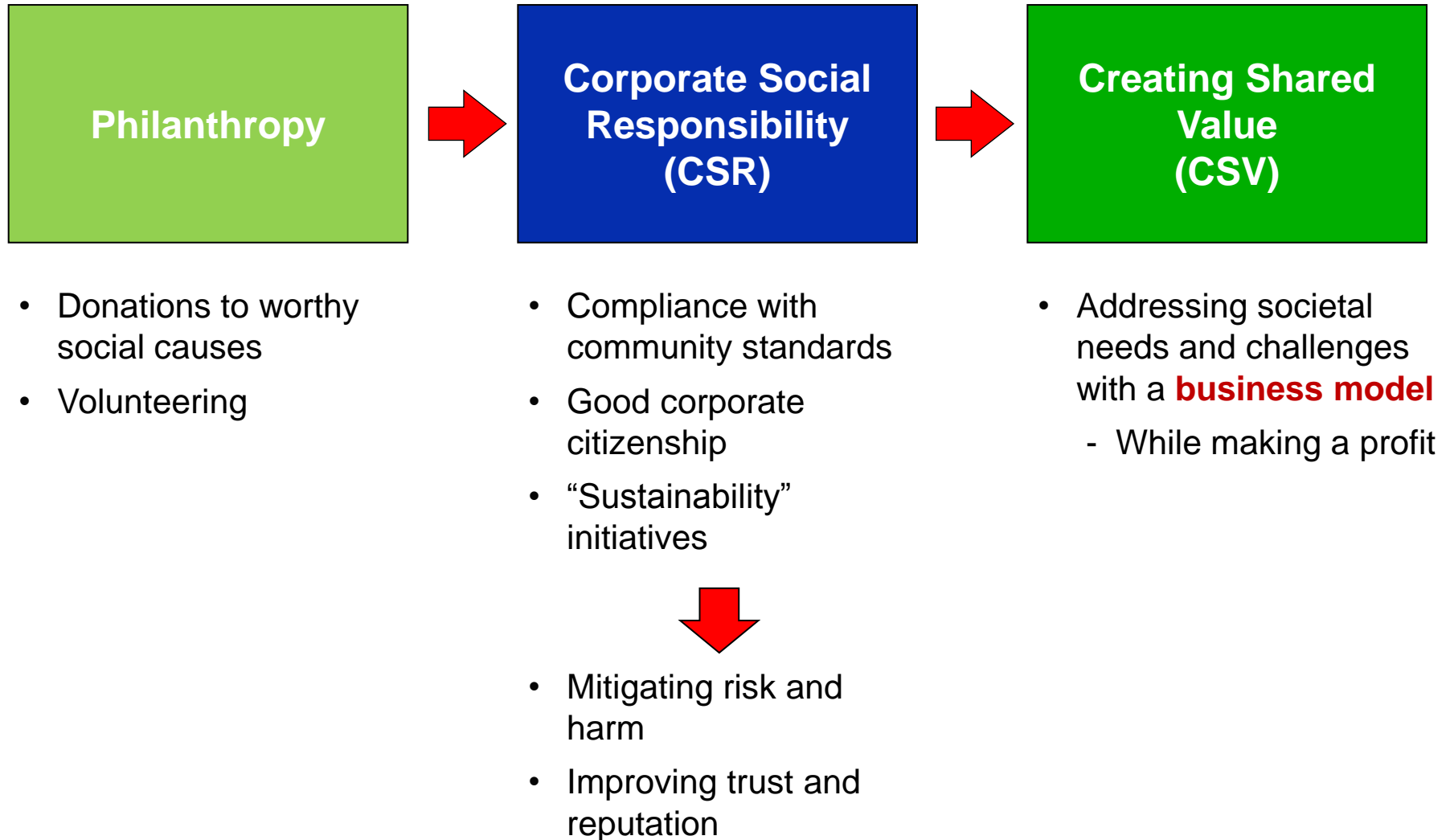
- Only business can **create economic prosperity**, through meeting needs at a profit
- Societies everywhere are facing significant **social, environmental and economic development** challenges
- Government and NGO's **lack sufficient resources and capabilities** to fully meet these challenges alone
- Corporate social responsibility efforts are greater than ever, but the **legitimacy of business has fallen**



We need a **new approach**

The Role of Business in Society

Evolving Approaches



Levels of Shared Value

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

- Meeting **societal needs** through products and services
- Serving **unserved** or **underserved** customers

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

- Utilizing resources, energy, suppliers, logistics, and employees **differently and better**

III. Improving the **local and regional business environment**

- Improving **skills**, the **supplier base**, the **regulatory environment**, and the **supporting institutions** that affect the business
- Strengthening the **cluster** on which the company depends
- Improving **consumer education** and **local infrastructure**

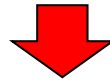


- Shared value strengthens the link between **company** success and **community** success

Shared Value in Products

Dow Chemical

- Dow recognized that global social issues represent its **largest market opportunities**
- Created the “**Breakthroughs to World Challenges**” Program
 - Each business unit was challenged to apply Dow’s tradition of “solutionism” through innovation to a **range of global problems** inspired by the Millennium Development Goals



- One of Dow’s business units 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, raising farmer and farmland productivity
- The oils have longer **shelf life** and **usage life** for food processors

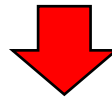


- Has become one of Dow’s largest selling product lines, with 2012 total revenues of approximately **\$700 million**

Shared Value in the Value Chain

Fibria, Brazil

- Fibria, the world's leading manufacturer of chemical pulp, utilizes planted eucalyptus trees and integration of native habitat to **dramatically reduce the land required** and sustainability in wood fiber cultivation
- 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 traditional plantation methods
- Small scale producers currently contribute **27% of the raw material volume** utilized in Fibria mills, improving efficiency
- Over **4000 households** have significantly increased employment and incomes

Shared Value Through Cluster Development

ITO EN, Japanese Tea Cluster

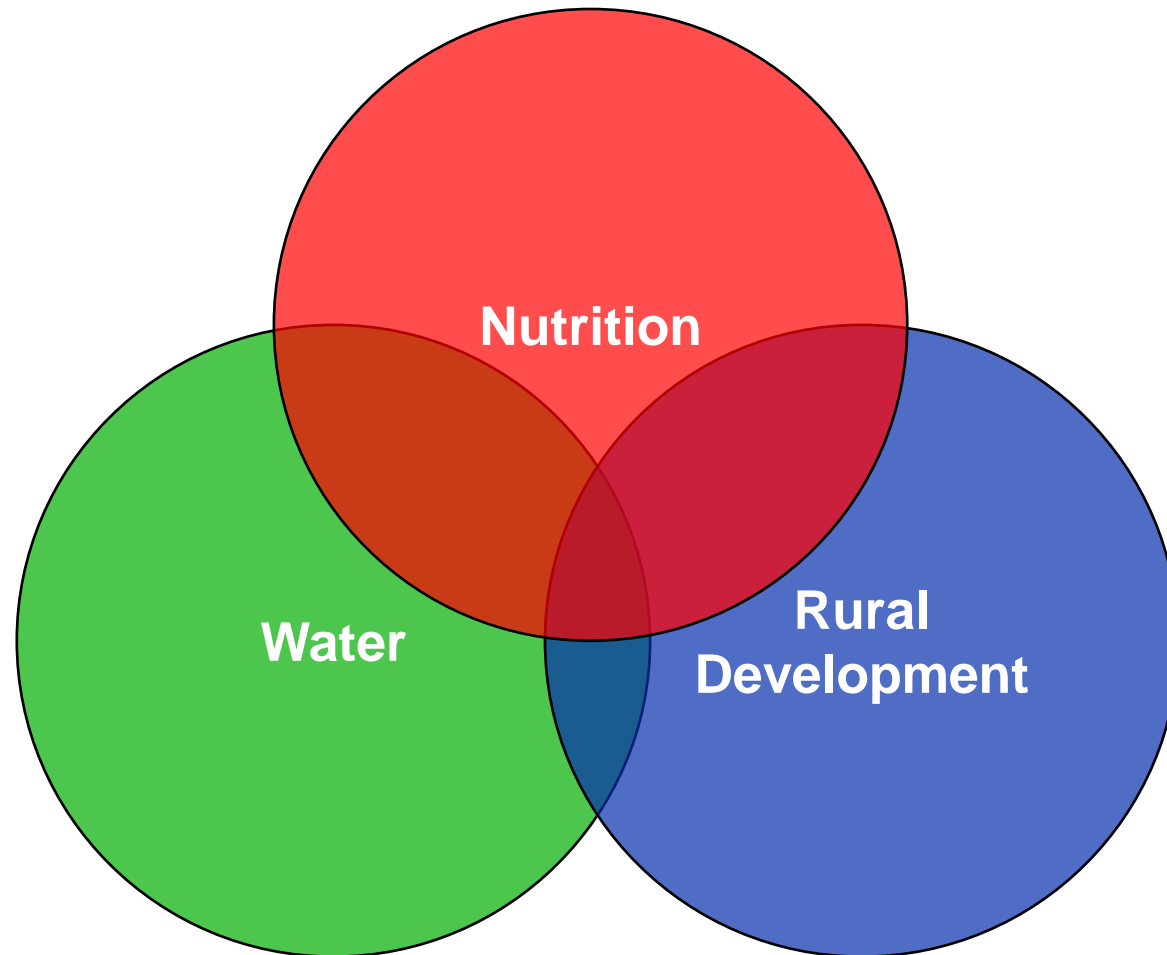
- ITO EN is the world's leading producer and marketer of loose leaf and bottled green tea. The company sources **100% locally-grown** green tea leaves
- ITO EN partners with farmers, government and other stakeholders to establish small and large scale plantations using **abandoned agricultural land**
- The company purchases entire crops produced through this program, **lowering sales costs**
- The company provides **assistance in modern farm management practices** and **technology**, working with growers to **raise tea quality** to meet ITO EN standards
- The program **motivates and trains young people** to take over tea growing when older farmers retire



- Farmer **incomes have risen** due to increased quality and efficiency
- Land abandoned by retiring farmers has been **restored** to production, creating jobs and assuring cluster sustainability by attracting young people
- Tea volume has expanded by 13% to date, providing ITO EN with **adequate volume, consistent quality**, and **reduced production costs**

Creating Shared Value: Where is the Opportunity?

Nestlé



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

The Purpose of Business

- The purpose in business is to create economic value while creating **shared value for society**
- 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 strategy and economic value creation and 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