

In Search of a Competitive Identity: Towards A Competitiveness Agenda for Colombia

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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), "The Microeconomic Foundations of Economic Development," in [The Global Competitiveness Report 2005-06](#), (World Economic Forum, 2005), "Clusters and the New Competitive Agenda for Companies and Governments" in [On Competition](#) (Harvard Business School Press, 1998), and the *Clusters of Innovation Initiative* (www.compete.org), a joint effort of the Council on Competitiveness, Monitor Group, and Professor Porter. 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.

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Agenda

- **Colombia at an Inflection Point**

- National Competitiveness: Core Concepts
- Defining the Company Agenda
- Upgrading the Business Environment
- The Process of Economic Development
- Towards a Competitiveness Strategy for Colombia

Colombia at an Inflection Point

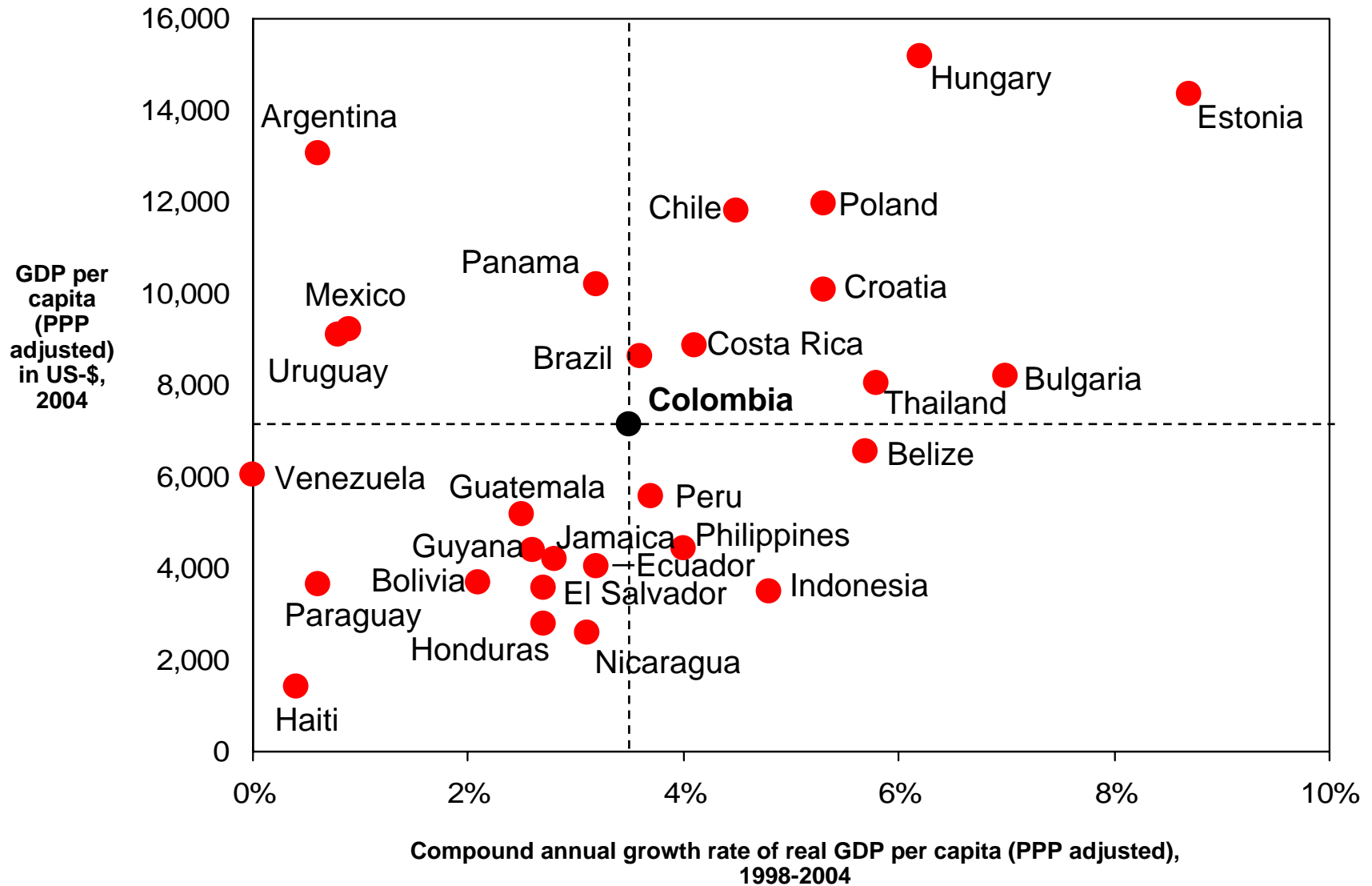
- Colombia's recent economic performance is **encouraging**
- Colombia has made **clear progress** in some important dimensions of national competitiveness
- However, the rate of economic growth must **increase and be sustained** if prosperity is to improve significantly for all citizens
- The potential is there, but a **clear strategic direction** and a **new structure for collaboration** are necessary if Colombia is to make a significant improvement in competitiveness



- A broad coalition of public and private sector leaders have engaged in an **ambitious and collaborative effort** to improve national competitiveness

Comparative Economic Performance

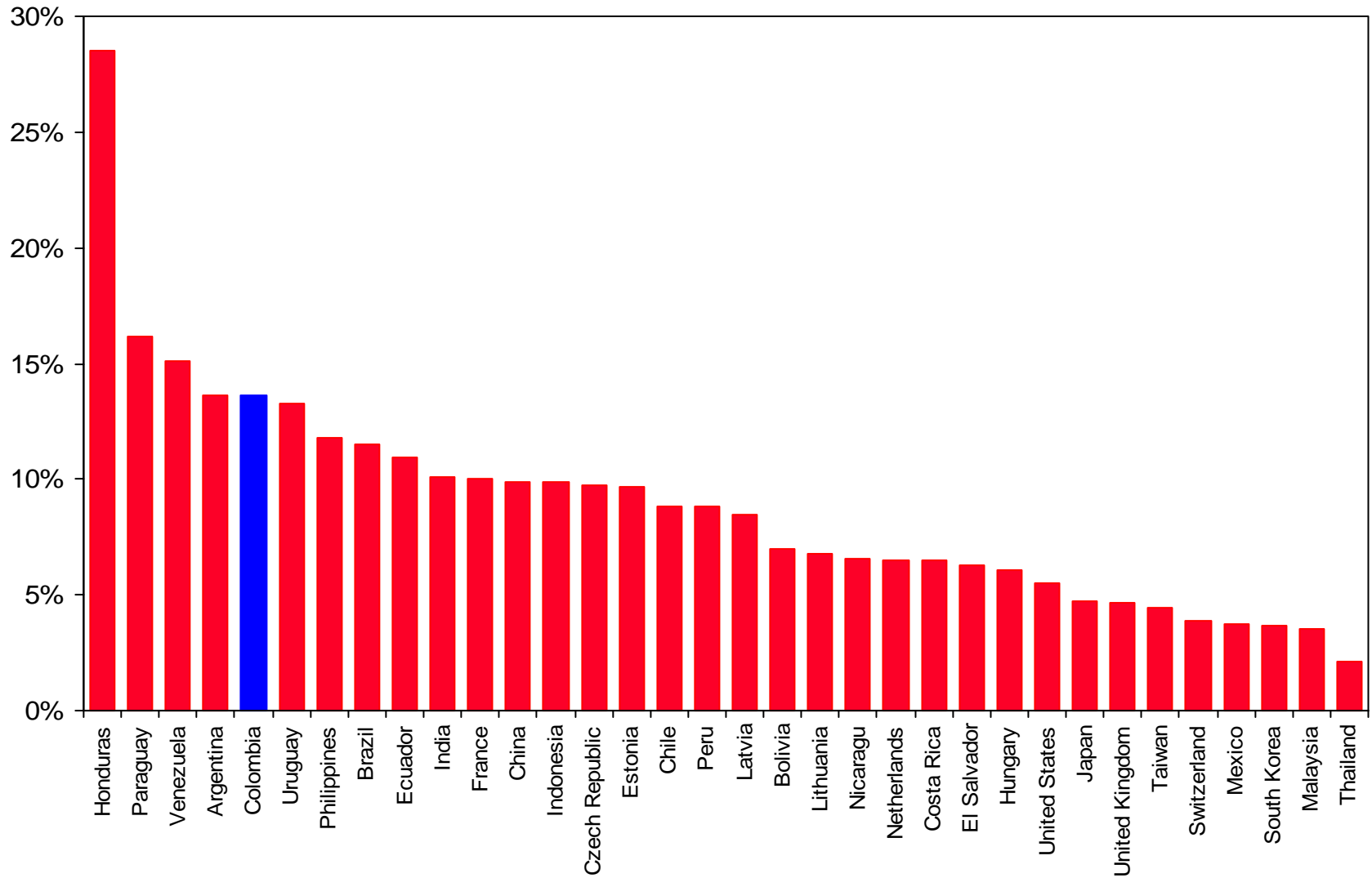
Colombia vs. Selected Countries



Unemployment

Colombia vs. Selected Countries

Unemployment as % of Labor Force, 2004

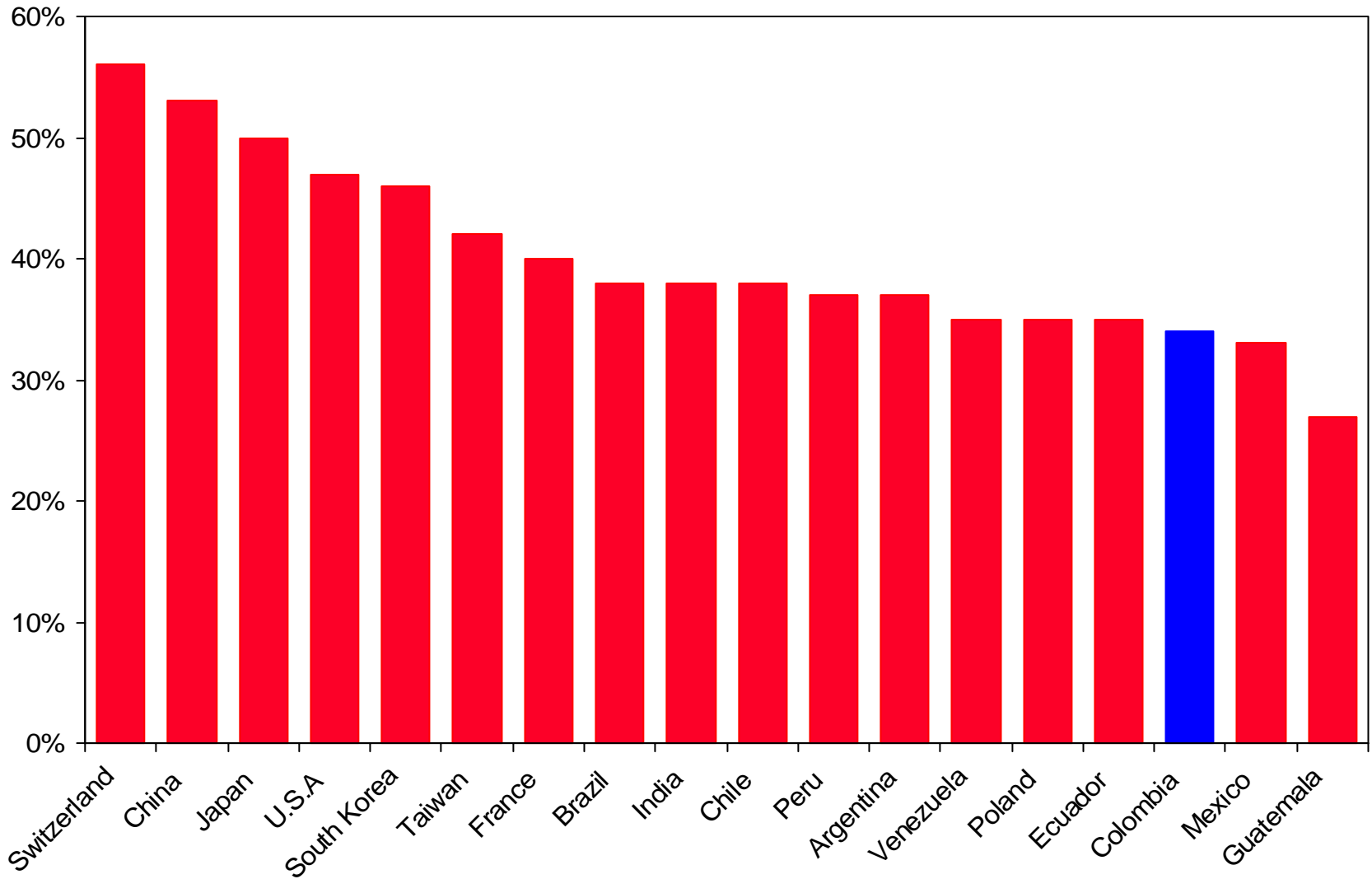


Source: EIU, 2005.

Labor Force Mobilization

Colombia vs. Selected Countries

Employees as % of Population, 2003



Source: Groningen Growth and Development Centre and The Conference Board, 2005

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What is Competitiveness?

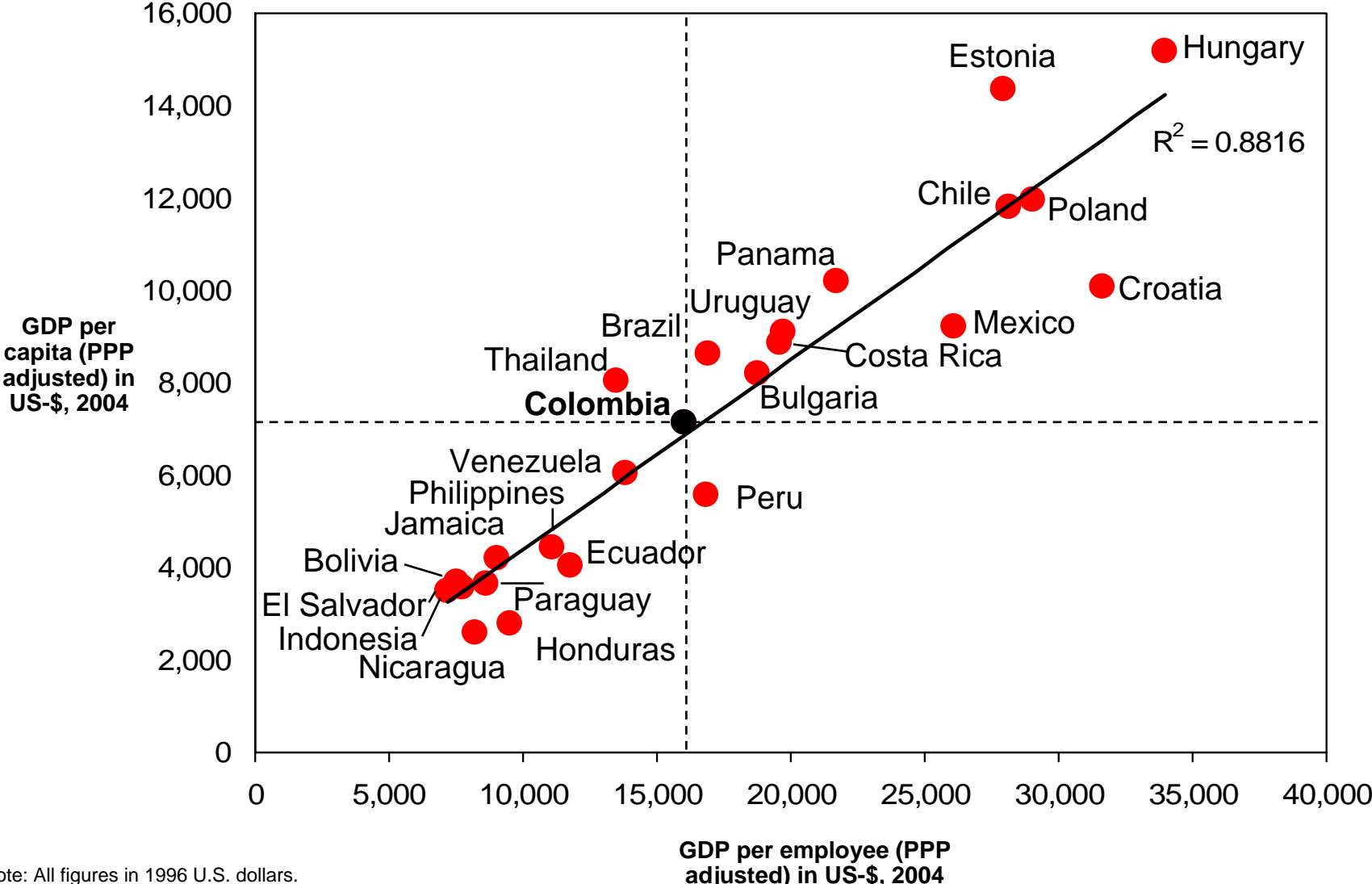
- Competitiveness is the **productivity** (value per unit of input) with which a nation, region, or cluster uses its human, capital, and natural resources. Productivity sets a nation's or region's standard of living (wages, returns on capital, returns on natural resources)
 - Productivity depends both on the **value** of products and services (e.g. uniqueness, quality) as well as the **efficiency** with which they are produced.
 - It is not **what** industries a nation or region competes in that matters for prosperity, but **how** firms compete in those industries
 - Productivity in a nation or region is a reflection of what both domestic and foreign firms **choose to do in that location**. The location of ownership is secondary for national prosperity.
 - The productivity of **“local”** industries is of fundamental importance to competitiveness, not just that of traded industries
 - Devaluation and revaluation do **not** make a country more or less “competitive”



- Nations or regions compete in offering the **most productive environment** for business
- The public and private sectors should play **different but interrelated roles** in creating a productive economy

Comparative Labor Productivity and Prosperity

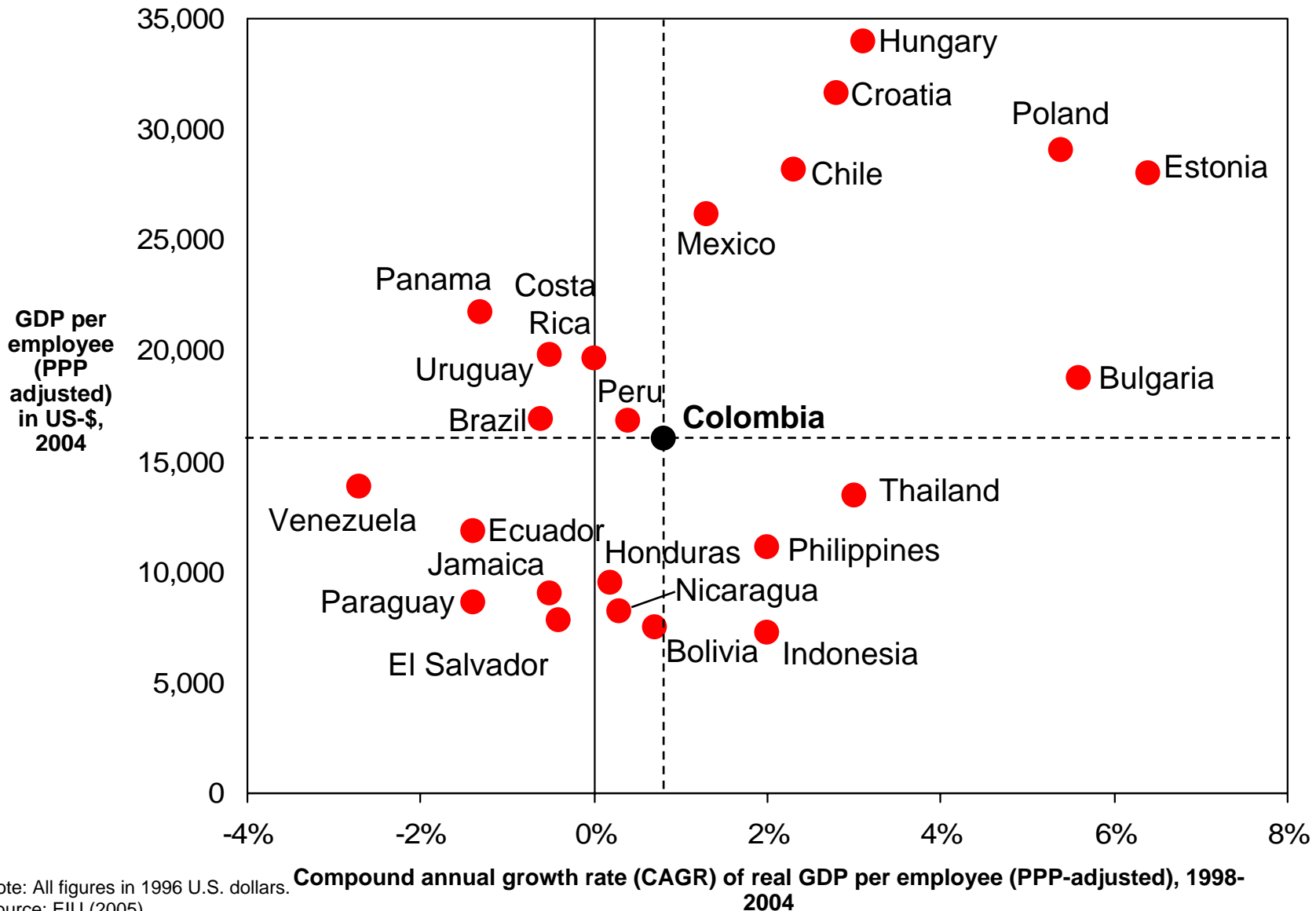
Selected Countries



Note: All figures in 1996 U.S. dollars.
 Source: EIU (2005)

Comparative Labor Productivity Performance

Selected Countries



Note: All figures in 1996 U.S. dollars.
Source: EIU (2005)

Determinants of Competitiveness

Macroeconomic, Political, Legal, and Social Context

Microeconomic Foundations

The Sophistication
of Company
Operations and
Strategy



The Quality of the
Microeconomic
Business
Environment

- A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, **but is not sufficient**
- Only **firms** can create wealth, not government

Agenda

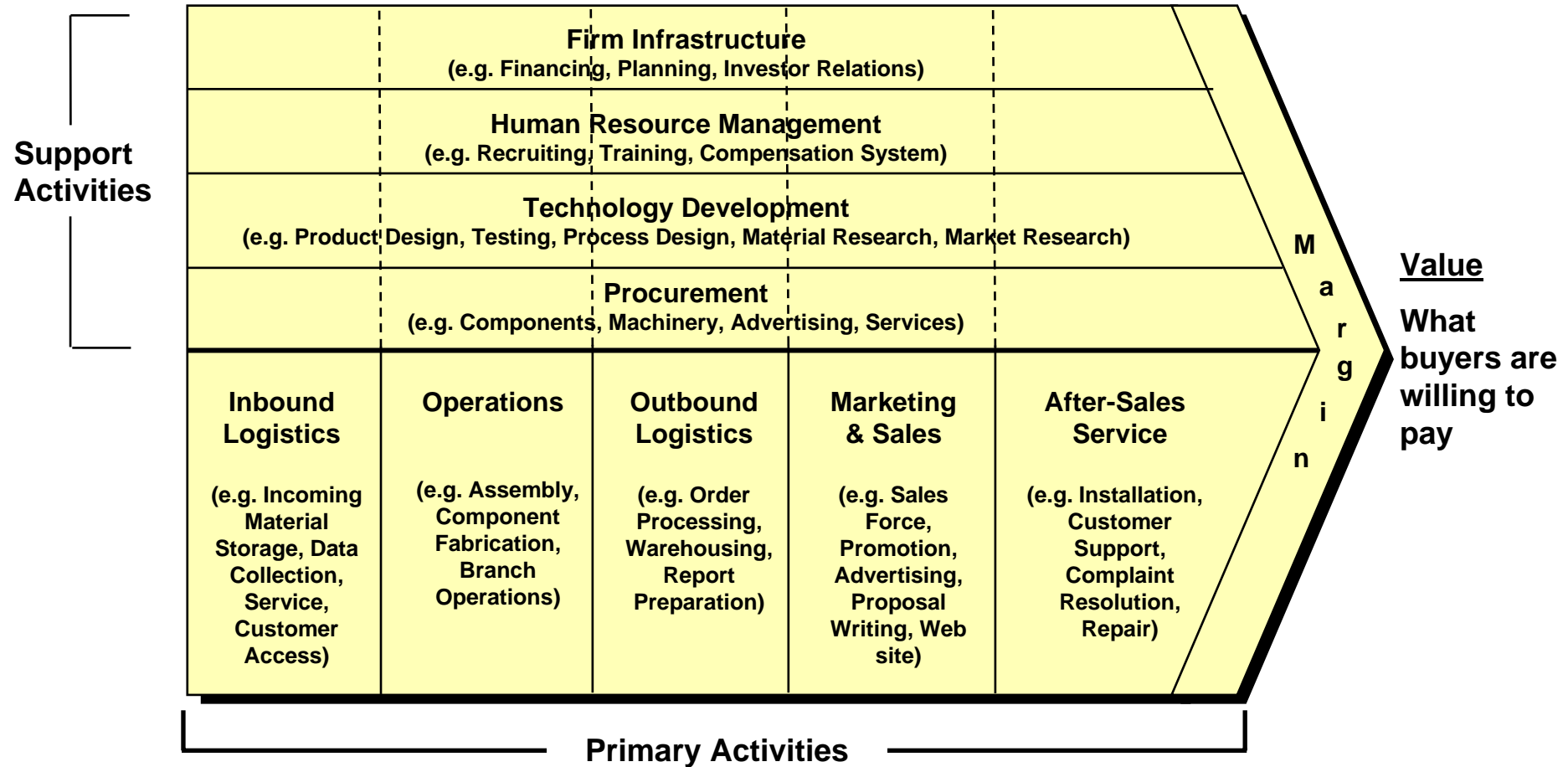
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The Company Agenda in Developing Economies

| Imperative | Past | Future |
|---|---|--|
| 1. Shift goals and mindsets | <ul style="list-style-type: none"> • Dominant share of a small, protected market | <ul style="list-style-type: none"> • Seek a strong position in the larger regional and international market |
| 2. Raise operational effectiveness to world-class standards | <ul style="list-style-type: none"> • Local inefficiency and low quality are tolerated | <ul style="list-style-type: none"> • Move to international best practices |
| 3. Widen capabilities in the value chain | <ul style="list-style-type: none"> • Limited participation with concentration on production | <ul style="list-style-type: none"> • Master the entire value chain, including technology, IT, and marketing |
| 4. Move from opportunism to strategy | <ul style="list-style-type: none"> • Flexibility to capitalize on opportunities created by instability and government policies | <ul style="list-style-type: none"> • Define a long-term strategy for competing in each industry |
| 5. Develop unique strategies | <ul style="list-style-type: none"> • “Me-too” commodity strategies based on low prices | <ul style="list-style-type: none"> • Create a distinctive value proposition |
| 6. Raise investment intensity of competition | <ul style="list-style-type: none"> • Short time horizon and low investment | <ul style="list-style-type: none"> • Sustained investment in human resources and technological capabilities |

Sources of Competitive Advantage

Activities and the Value Chain



- Competitive advantages arise from choices in the value chain

Achieving Superior Performance

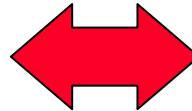
Operational Effectiveness is Not Strategy

Operational Effectiveness

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

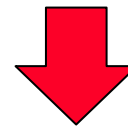


Run the same race faster



Strategic Positioning

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



Choose to run a different race

Five Tests of an Effective Strategy

A **unique value proposition** compared to competitors

A **different**, tailored value chain

Clear tradeoffs, and choosing what **not** to do

Activities that **fit** together and reinforce each other

Continuity of strategy with continual improvement in realization

Strategic Positioning in Emerging Economies

Pollo Campero, Guatemala

Value Proposition

- Fast food chicken tailored to the tastes and preferences of the Central American customer at very low prices

Set of Activities

- Combination of traditional fast food model with some table service
- Heavy marketing and promotion
 - “An affordable treat for the whole family”
 - Frequent gimmicks and promotions, targeting every member of the family
 - Strong civic pride and social awareness
- Engineering department studies motion to improve restaurant efficiency
- Emphasize high productivity in the labor force through incentives, education, and training



- **Low price expands the market**
- **Pollo Campero competes effectively against US fast food companies through better understanding of local customer needs**

The Company Agenda in Developing Economies (Continued)

| Imperative | Past | Future |
|---|---|---|
| 7. Expand trade with neighbors and a broader range of countries | <ul style="list-style-type: none">• Export commodities or labor-intensive goods to advanced economies | <ul style="list-style-type: none">• Export more differentiated, branded products and services to neighbors and niches in advanced countries |
| 8. Reduce dependence on alliances | <ul style="list-style-type: none">• Heavy use of OEM agreements, foreign distributors, and joint ventures | <ul style="list-style-type: none">• Direct control of distribution, customer relationships, and technology in serving international markets |

Internationalization Strategy from a Developing Country

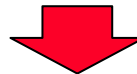
Café Britt, Costa Rica

Value Proposition

- High value added, gourmet, processed coffee products

Set of Activities

- Roast and blend high quality coffees, leveraging regional coffee expertise
- Moving from selling commodity products to building brand awareness
- Distribute and promote widely in key Costa Rican tourist hotels
- Educate and market to consumers using coffee plantation tours
- Sell product at major tourist attractions and airports
- Reach targeted international consumers through direct mail
- Conduct R&D on blends and tastes to meet changing customer needs



- Café Britt developed successful differentiation taking advantage of the high quality and favorable image of the Costa Rican coffee cluster

Internationalization Strategy from a Developing Country

CEMEX

Cemex Strategy

- The market leader in Mexico with 60% of the country's total installed capacity
- Produces commodity products as well as products **tailored** to the Mexican market
- Aggressive investments in process technology and IT

Internationalization Concept

- Acquire controlling stakes in the largest producers in **emerging** countries
- Acquisition targets have plants located **close to ports** to allow opportunities for exporting excess capacity
- Migrate products and technologies from Mexico to new countries

Country Selection

- Country should have large population, high population growth, and relatively low level of current consumption
- Cemex should be able to control at least 25% of the market
- There are other potentially attractive countries for Cemex in the region

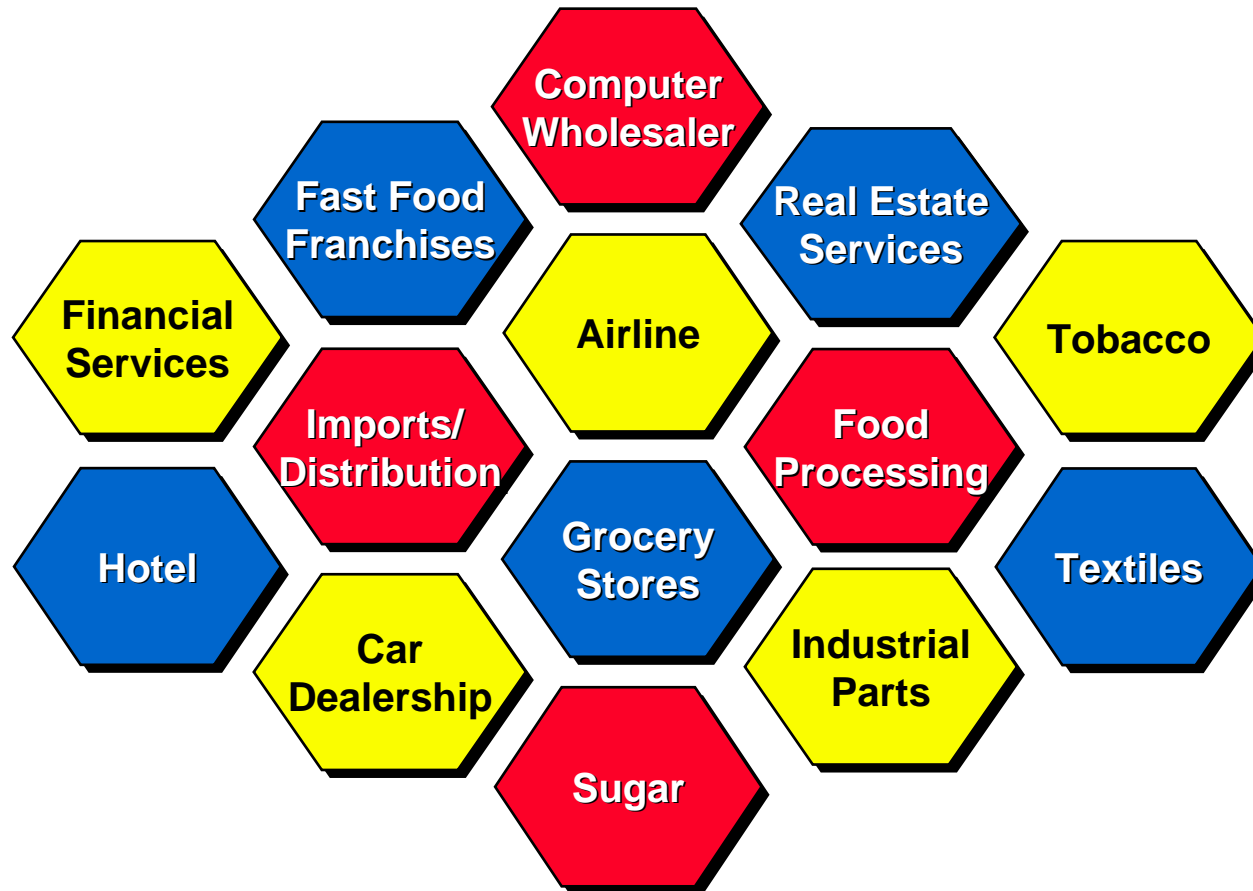
Company Selection

- Cemex seeks to obtain a controlling stake
- There is potential for restructuring the target company and its local industry=

The Company Agenda in Developing Economies (Continued)

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| 9. Reorient corporate diversification | <ul style="list-style-type: none"> • Conglomerate groups operating in many disparate fields | <ul style="list-style-type: none"> • Focused companies operating in a few related fields |

Typical Holdings of a Developing Country Conglomerate



What is the corporate value added?

Corporate Strategy and Economic Development

- The portfolio management approach becomes **less and less viable** as an economy becomes more advanced
 - Wider access to capital and foreign partners
 - More competition
 - Greater need for true competitive advantages
 - Better access to suppliers and supporting organizations
 - Limited ability to remain competitive in disparate businesses
- Countries in which large business groups play a significant role in the economy are associated with **lower GDP per capita** (Global Competitiveness Report 2001-2002)
- As an economy develops, business groups must become **more focused** if they are to continue to prosper
 - Limit the array of businesses with a clear theme
 - Grow by **expanding core businesses regionally and globally** rather than by moving into unrelated areas

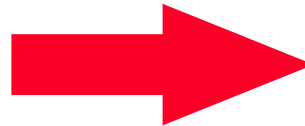
Re-focusing a Conglomerate in a Developing Economy

Empresas CAP, Chile

1990

Empresas CAP

- Mining
- Steel
- Forestry
- Fruits
- Other Farm Products
- Petroleum
- Pension Management
- Television Network
- Life Insurance



1994

CAP

- Mining and Steel

TERRANOVA

- Forestry

INVERCAP

- Other businesses

Changes in the Chilean Environment

- Liberalization of trade
- Institutional equity investment increases dramatically
- American Depository Receipts became a viable financing mechanism for Chilean firms
- Surge of national and international analysts who cover the Chilean market

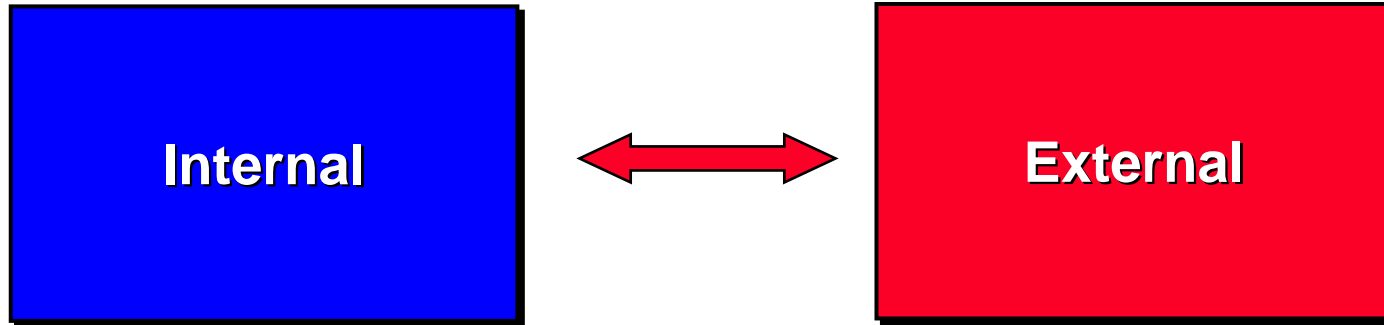
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| 10. Take responsibility for competitiveness | <ul style="list-style-type: none"> • Economic policy is left to government | <ul style="list-style-type: none"> • Companies take a leadership role in upgrading their cluster and improving the business environment |

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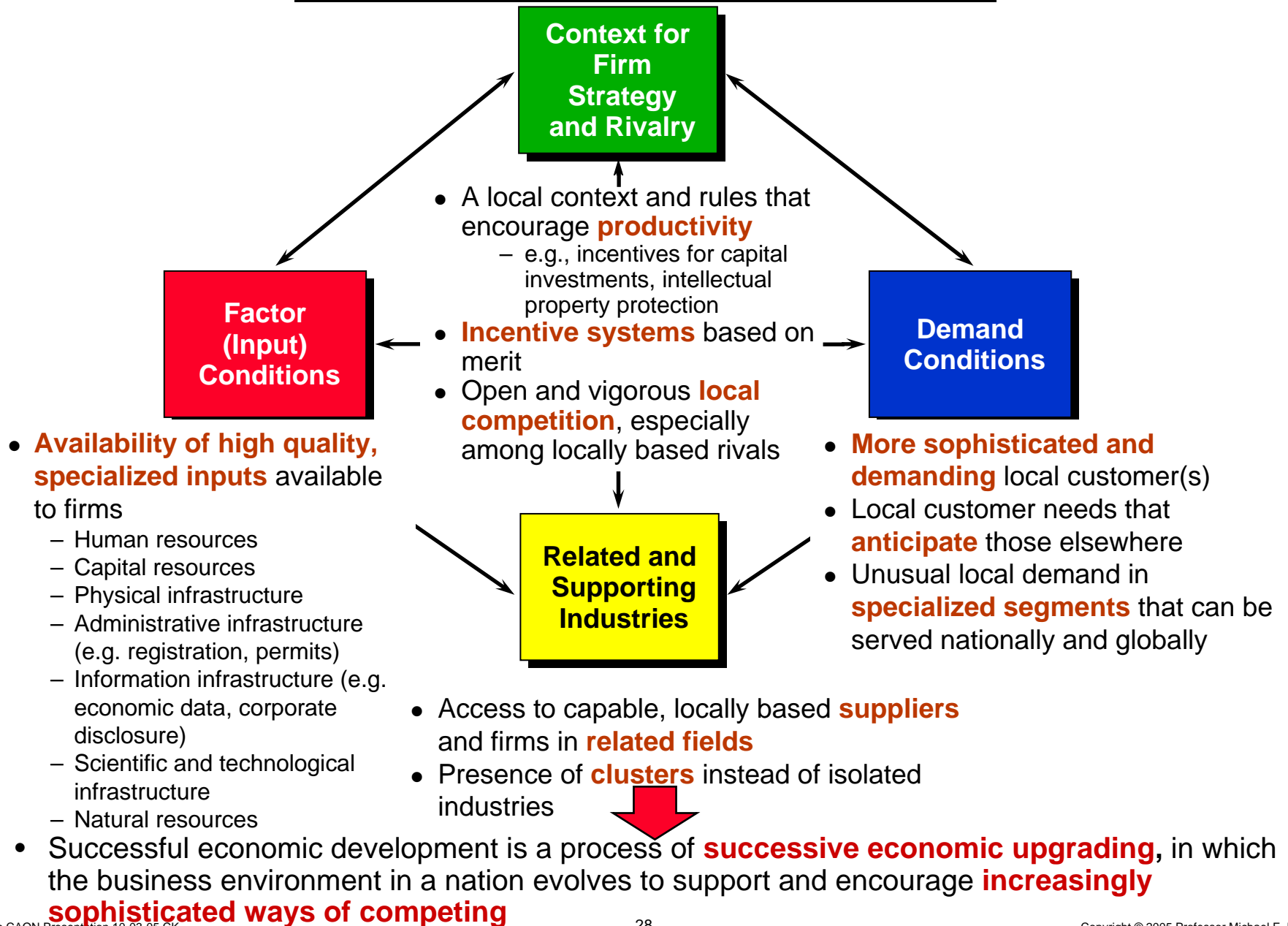
Perspectives on Firm Success



- Competitive advantage resides solely **inside** a company or in its industry
- Competitive success depends primarily on **company choices**
- Competitive advantage (or disadvantage) resides partly in the **locations** at which a company's business units are based
- **Cluster participation** is an important contributor to competitiveness

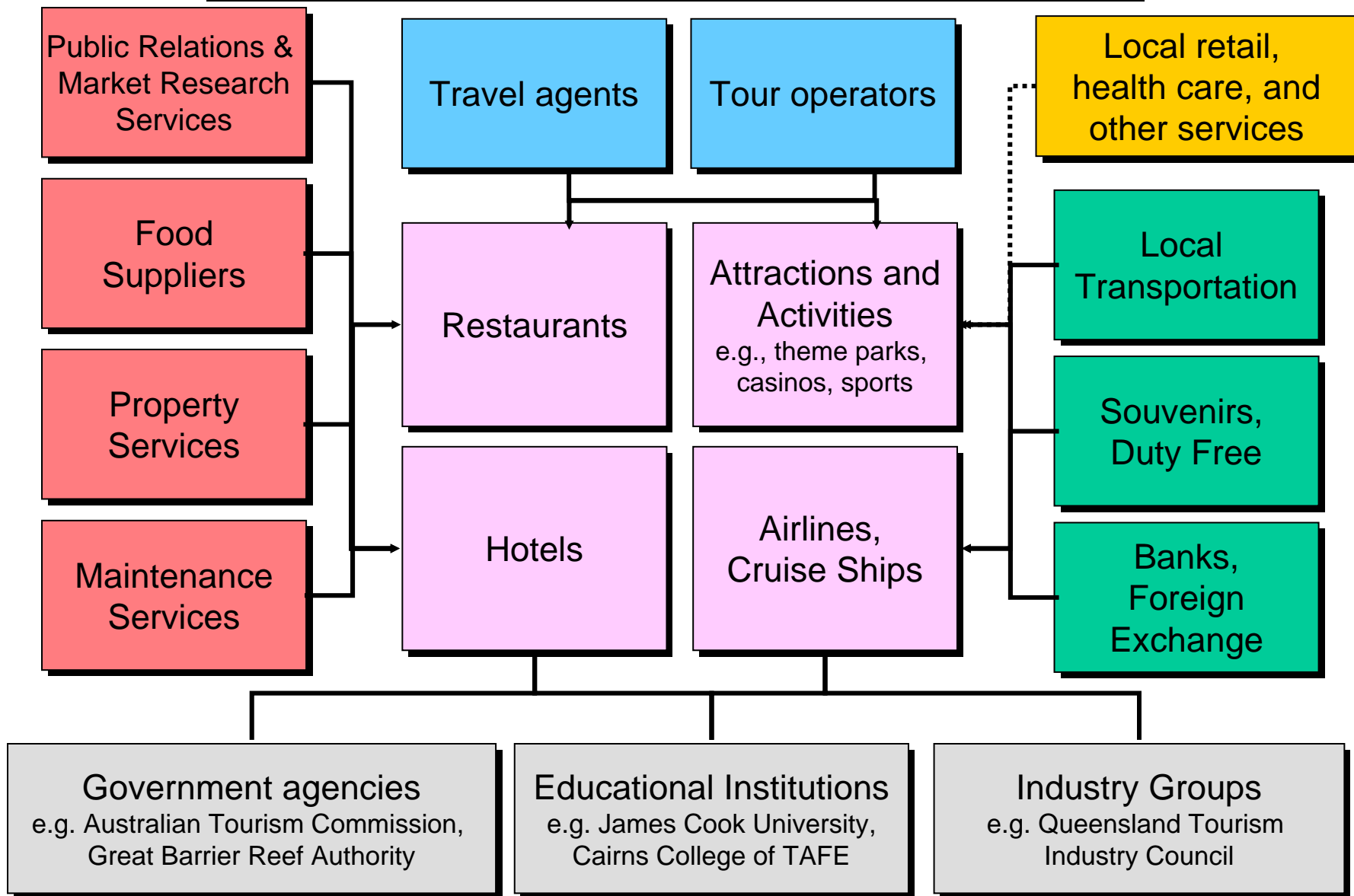
Determinants of Competitiveness

Enhancing the Business Environment



Determinants of Competitiveness

Cluster Development, Cairns (Australia) Tourism



Clusters and Competitiveness

- **Clusters Increase Productivity / Efficiency**

- Efficient **access** to specialized inputs, services, employees, information, institutions, and “public goods” (e.g. training programs)
- Ease of **coordination** and transactions across firms
- Rapid **diffusion** of best practices
- Ongoing, visible **performance comparisons** and strong incentives to improve vs. local rivals

- **Clusters Stimulate and Enable Innovations**

- Enhanced ability to **perceive innovation opportunities**
- Presence of multiple suppliers and institutions to assist in **knowledge creation**
- Ease of **experimentation** given locally available resources

- **Clusters Facilitate Commercialization**

- Opportunities for **new companies** and **new lines of established business** are more apparent
- **Commercializing** new products and starting new companies is easier because of available skills, suppliers, etc.



Clusters reflect the fundamental influence of **linkages and spill-overs** across firms and associated institutions in competition

Clusters in Developing Countries

Leading Footwear Clusters

Portugal

- Production
- Focus on short-production runs in the medium price range

Romania

- Production subsidiaries of Italian companies
- Focus on lower to medium price range

China

- OEM Production
- Focus on low cost segment mainly for the US market

Italy

- Design, marketing, and production of premium shoes
- Export widely to the world market

United States

- Design and marketing
- Focus on specific market segments like sport and recreational shoes and boots
- Manufacturing only in selected lines such as hand-sewn casual shoes and boots

Brazil

- Low to medium quality finished shoes, inputs, leather tanning
- Shift toward higher quality products in response to Chinese price competition

Vietnam/Indonesia

- OEM Production
- Focus on the low cost segment mainly for the European market

Institutions for Collaboration

Selected Massachusetts Organizations, Life Sciences

Life Sciences Industry Associations

- Massachusetts Biotechnology Council
- Massachusetts Medical Device Industry Council
- Massachusetts Hospital Association

General Industry Associations

- Associated Industries of Massachusetts
- Greater Boston Chamber of Commerce
- High Tech Council of Massachusetts

Economic Development Initiatives

- Massachusetts Technology Collaborative
- Mass Biomedical Initiatives
- Mass Development
- Massachusetts Alliance for Economic Development

University Initiatives

- Harvard Biomedical Community
- MIT Enterprise Forum
- Biotech Club at Harvard Medical School
- Technology Transfer offices

Informal networks

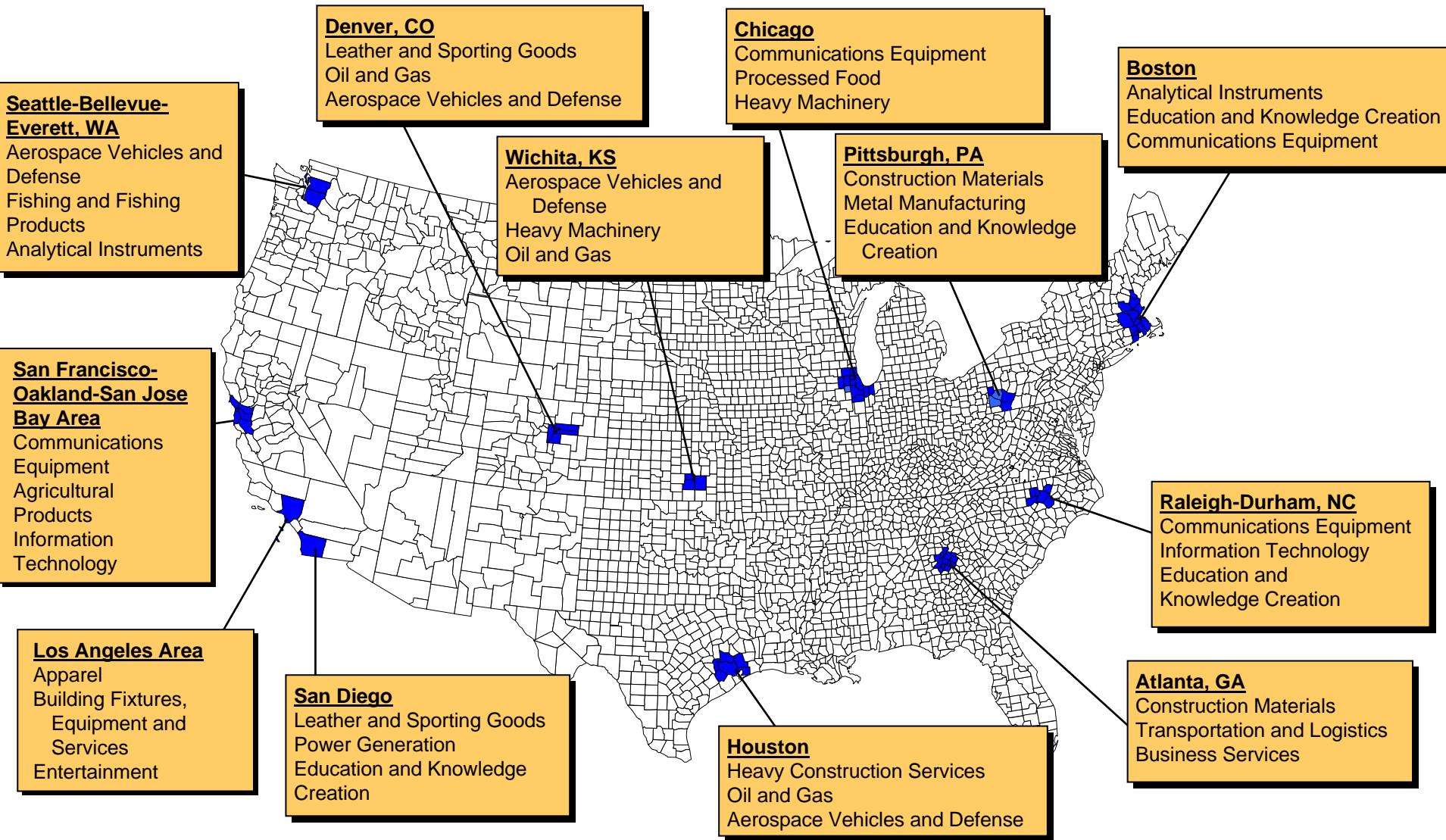
- Company alumni groups
- Venture capital community
- University alumni groups

Joint Research Initiatives

- New England Healthcare Institute
- Whitehead Institute For Biomedical Research
- Center for Integration of Medicine and Innovative Technology (CIMIT)

Specialization of Regional Economies

Select U.S. Geographic Regions

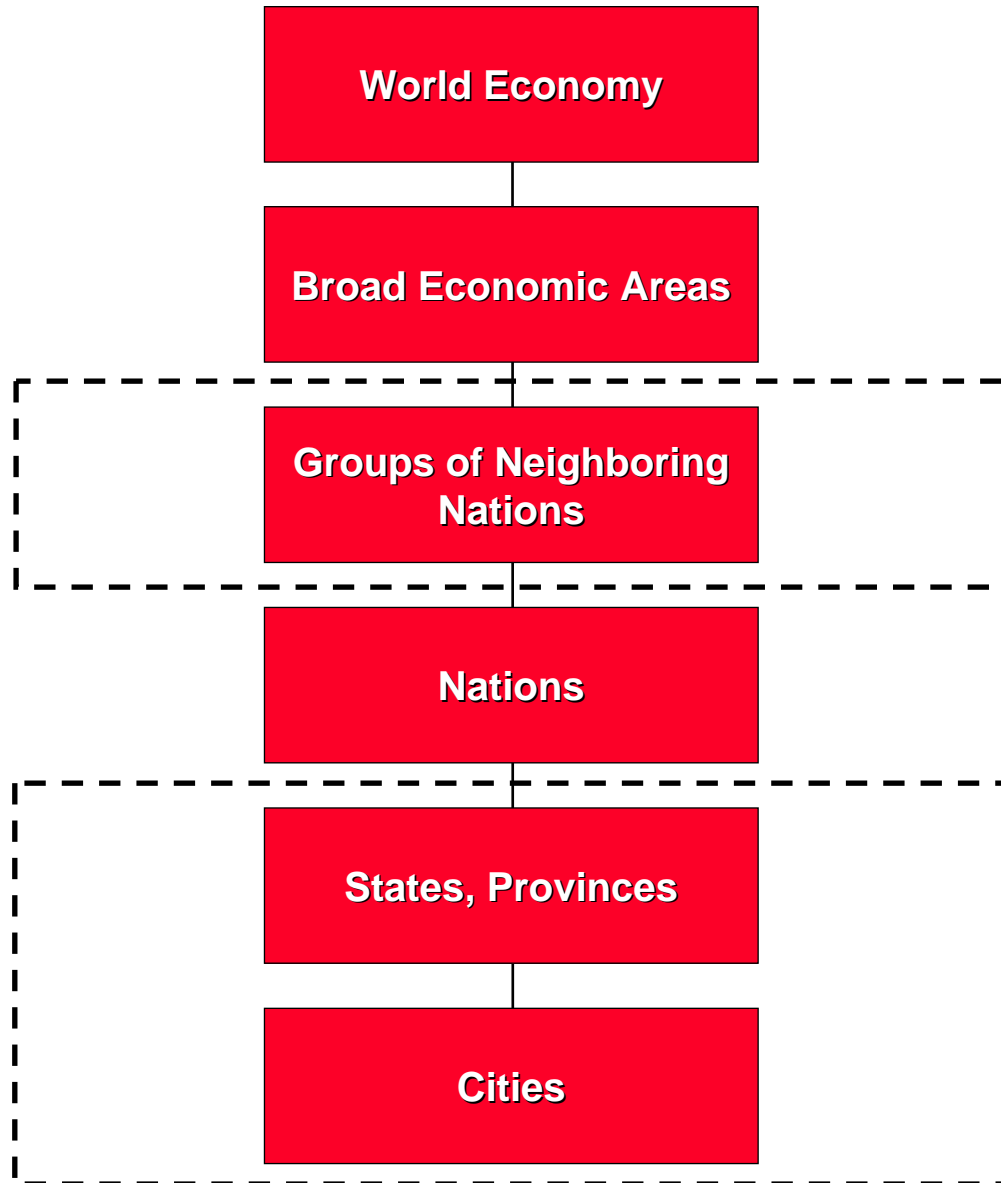


Note: Clusters listed are the three highest ranking clusters in terms of share of national employment

Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

Influences on Competitiveness

Multiple Geographic Levels



Stages Of Competitive Development



Input Cost

- Macro, political, and legal stability
- Efficient basic infrastructure
- Lowering the regulatory costs of doing business

Efficiency

- Local competition
- Market openness
- Incentives and rules encouraging productivity
- Cluster development

Unique Value

- Advanced skills
- Advanced infrastructure
- Incentives and rules encouraging innovation
- Cluster upgrading

Free Trade Agreements and Competitiveness

Opportunities

- More open **access to foreign markets** for exporting companies
- Increased attractiveness of the country to **foreign investors**
- Lower cost of **foreign equipment, components, and other inputs**
- Lower cost foreign goods available to **consumers**
- Greater **regional economic integration**

Challenges

- More open to **imports**
- Much greater **competition** in the domestic market
- The need to meet the needs of **more demanding customers**



- Free trade agreements create **opportunity, but do not guarantee** prosperity
- The effect of a free trade agreement depends on the extent of **resulting changes** in underlying competitiveness

Agenda

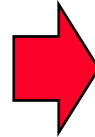
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The Process of Economic Development

Shifting Responsibilities

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 institutions for collaboration

- Competitiveness must become a **bottoms-up process** in which many individuals, companies, and institutions take responsibility
- **Every** community and cluster can take steps to enhance competitiveness

Upgrading Competitiveness at the Microeconomic Level

A Two-Pronged Approach

**General Business
Environment
Upgrading**

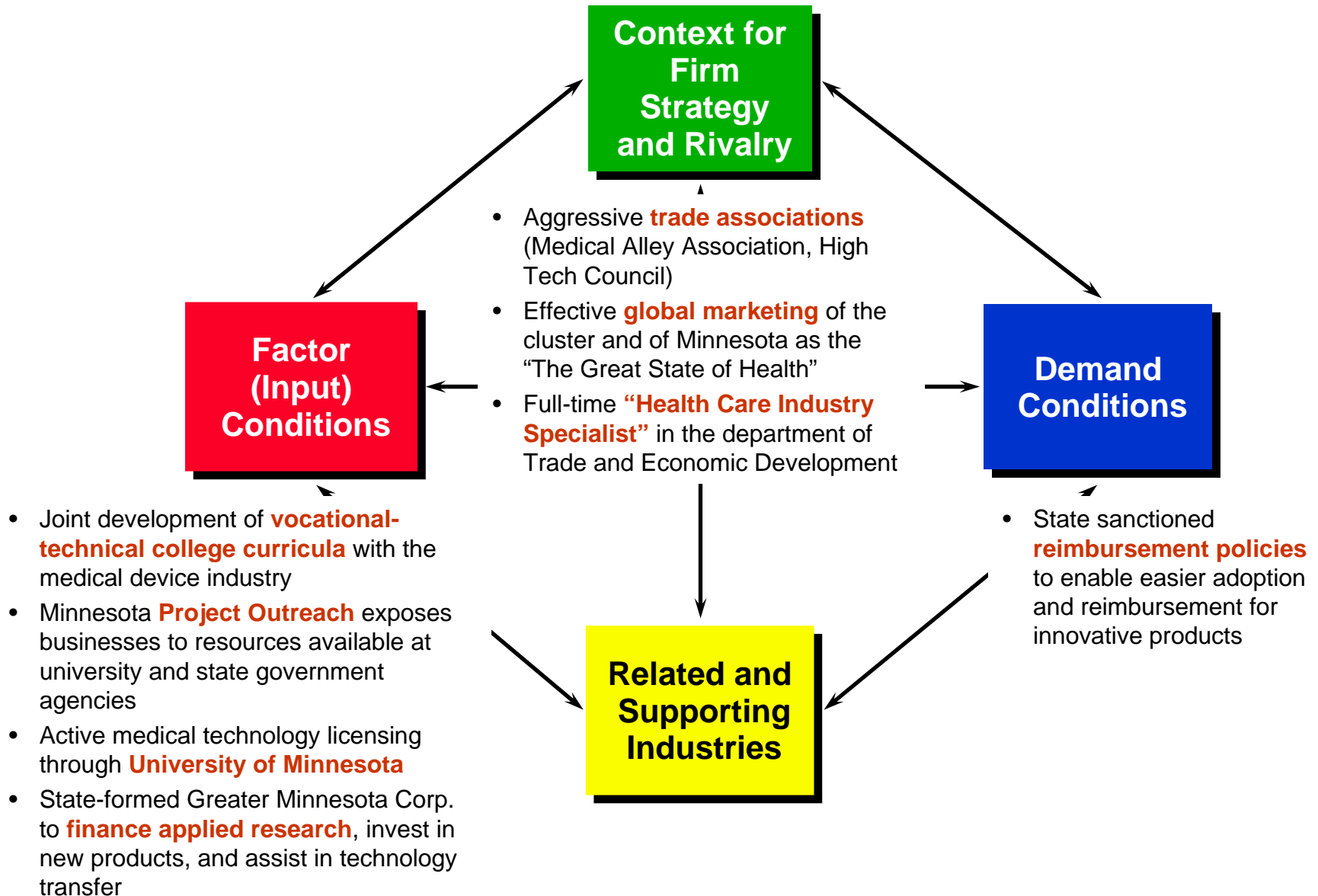
**Cluster
Mobilization**

- Improves the economic platform for all clusters and companies

- Accelerates growth in those fields where the country has some strengths
- New clusters emerge from established clusters

Public / Private Cooperation in Cluster Upgrading

Minnesota's Medical Device Cluster



Cluster Composition

Colombia Export Performance by Cluster

World Market Share,
2003

2.0%

1.5%

1.0%

0.5%

0.0%

-0.6%

-0.4%

-0.2%

0.0%

0.2%

0.4%

0.6%

Coal and Briquettes (4.66%)

Change in Colombia overall
export share: -0.04%

Transportation /
Logistics

Agricultural
Products

Oil and Gas
Products

Apparel

Jewelry, Precious Metals,
Collectibles

Business Services

Plastics

Processed Food

Colombia
overall export
share:
0.18%

Hospitality /
Tourism

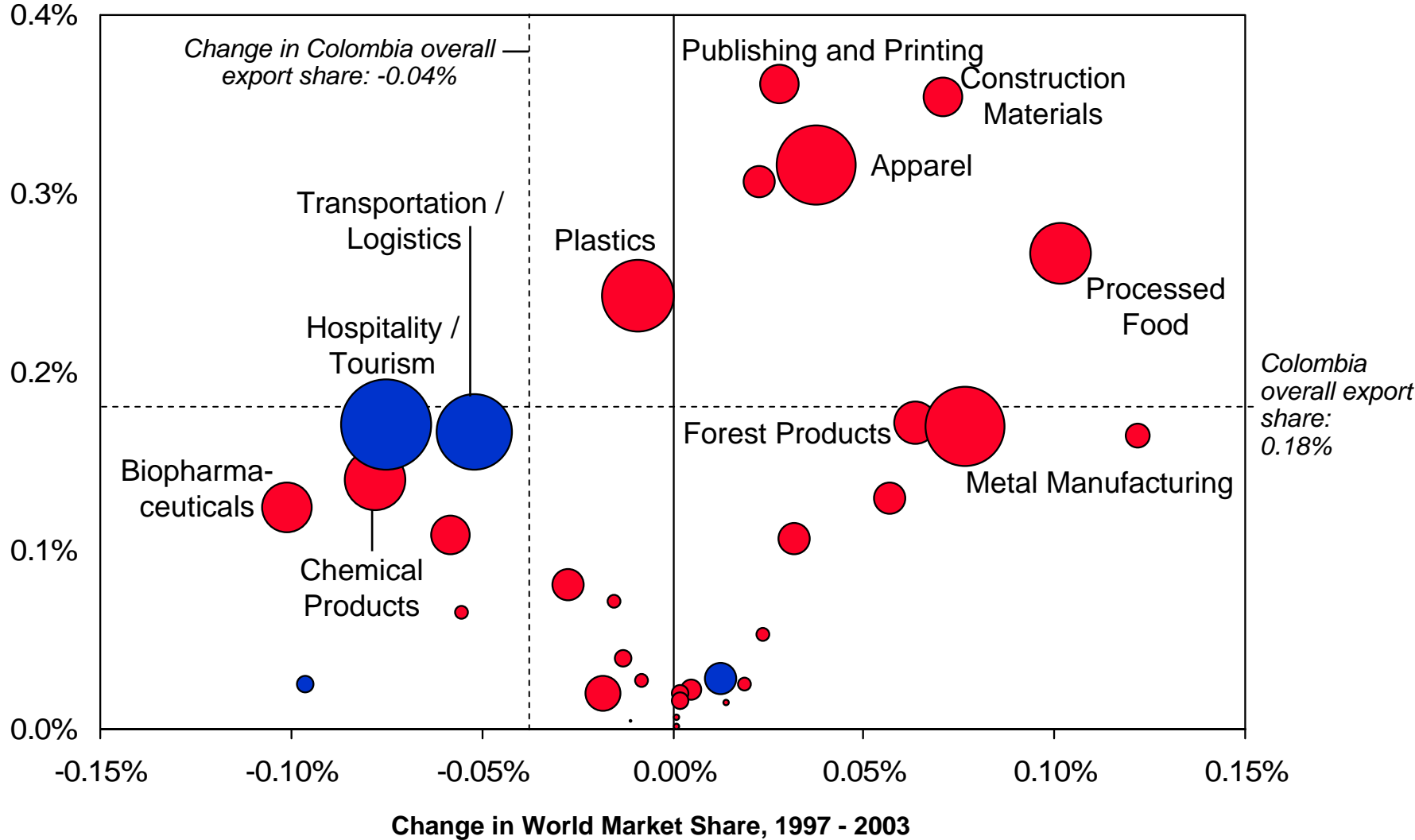
Metal Manufacturing

Change in World Market Share, 1997 - 2003

Cluster Composition

Colombia Export Performance by Cluster (Detail)

World Market Share,
2003



Appropriate Roles of Government in Cluster Development

- A successful cluster policy builds on **sound overall economic policies**
- Government should support the development of **all clusters**, not pick winners among them
- Government policy should **reinforce established and emerging clusters** rather than attempt to create entirely new ones
- Government can **seed new clusters** by attracting foreign direct investment
- Government's role in cluster initiatives is as **facilitator** and **participant**. The most successful cluster initiatives are public-private partnerships
- *Government should **NOT** provide subsidies, protection, or relaxation of competition laws*

Role of the Private Sector in Economic Development

- A company's competitive advantage depends partly on the **quality of the business environment**
- A company gains advantages from being part of a **cluster**
- Private initiatives and investment in **“public goods”** or collective assets are justified



- Take an **active role** in upgrading the local infrastructure
- Nurture **local suppliers** and attract foreign suppliers
- Work closely with local **educational and research institutions**, to upgrade their **quality and create specialized programs addressing the cluster's needs**
- Inform government on **regulatory issues and constraints** bearing on cluster development
- Focus **corporate philanthropy** on enhancing the local business environment



- An important role for **trade associations**
 - Greater influence if many companies are united
 - Cost sharing between members

Organizing for Economic Development

Massachusetts Governor's Council on Economic Growth and Technology

Governor's Council on Economic Growth and Technology

Industry Cluster Committees

- Advanced Materials
- Biotechnology and Pharmaceuticals
- Defense
- Marine Science and Technology
- Medical Devices
- Software
- Telecommunications
- Textiles
- Information Technology

Functional Task Forces

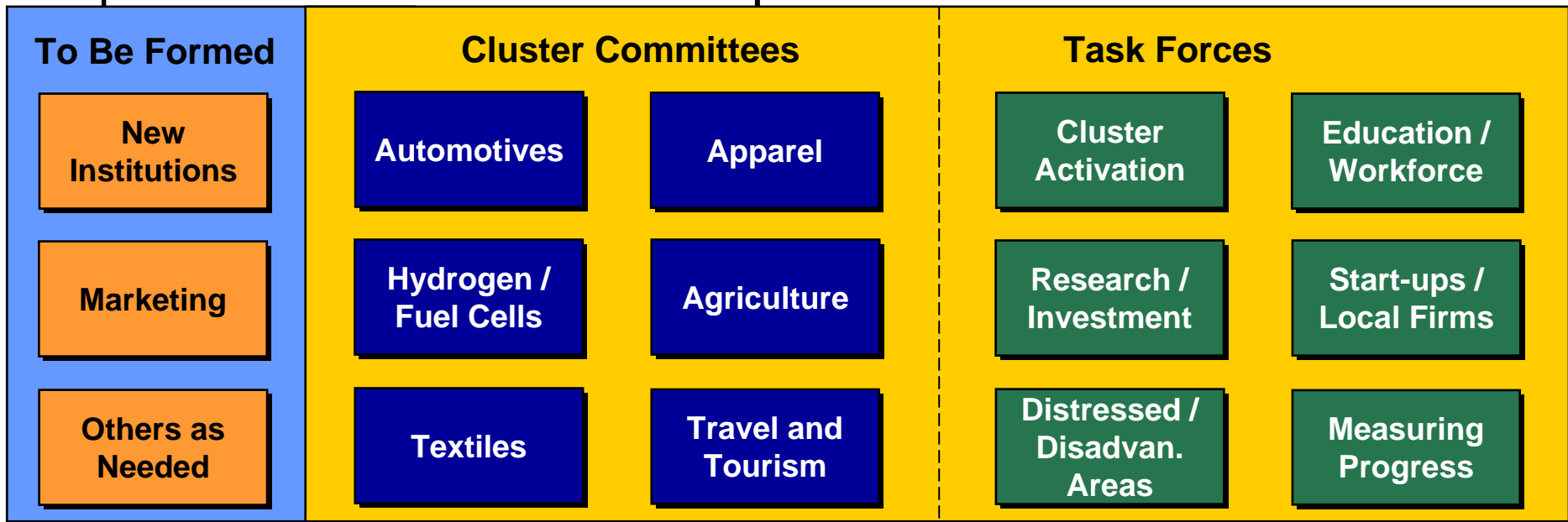
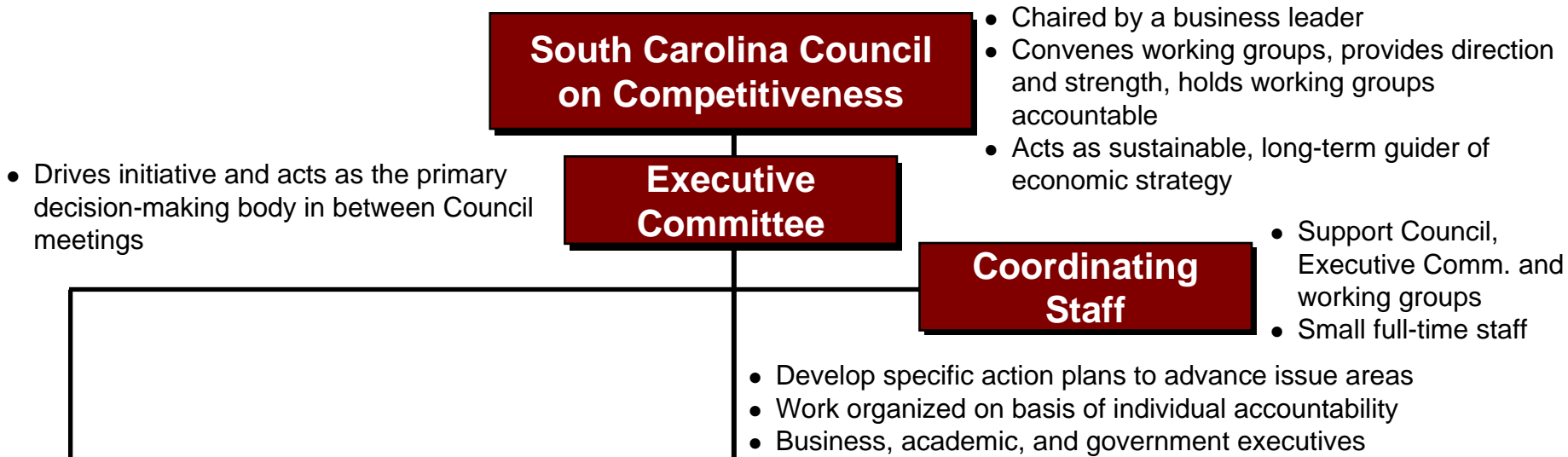
- International Trade
- Marketing Massachusetts
- Tax Policy and Capital Formation
- Technology Policy and Defense Conversion

Issue Groups

- Cost of Doing Business
- Financing Emerging Companies
- Health Care
- Western Massachusetts
- Business Climate
- Competitive Benchmarking

Organizing for Economic Development

South Carolina Council on Competitiveness



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Colombian Competitiveness

Selected Issues

Macro, Political, Legal, Social Environment

- Impact of **narcotics** and **political unrest** on the country's image and competitiveness
- History of **short-term focus** in economic policy

Upgrading the Business Environment

- Low levels of **foreign direct investment**
- A large portion of economic activity remains in the **grey economy**
- Inadequate **physical infrastructure**
- Complex and ineffective **tax system**

Cluster Development

- Limited **cluster engagement**

Company Operations and Strategies

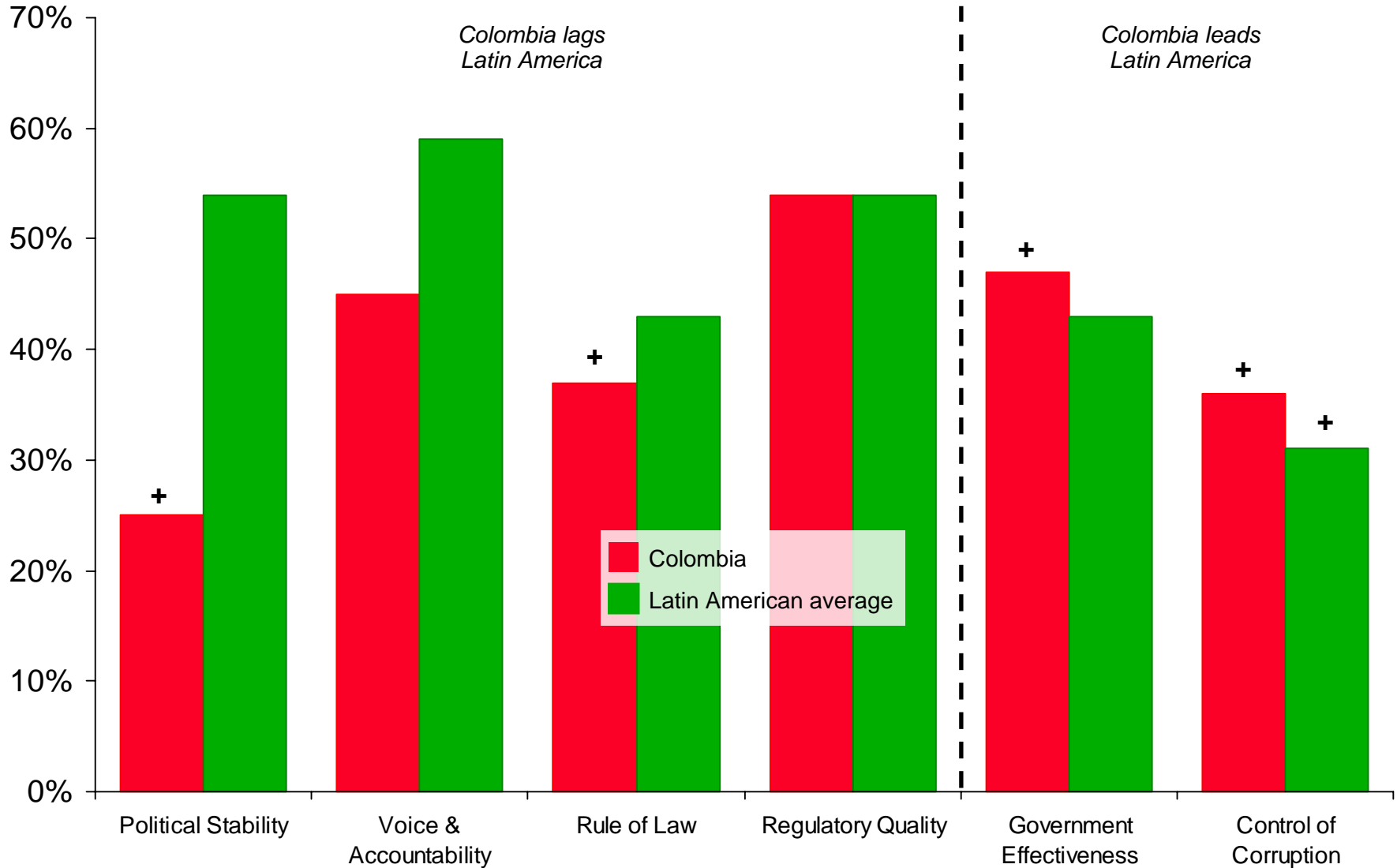
- Heavy role of **diversified business groups** in the economy
- Limited SME development

Process of Economic Development

- Lack of a **long-term, collaborative structure** for economic development

Macro, Political, Legal, Social Environment

Percentage of Leading Country in the World, 2004

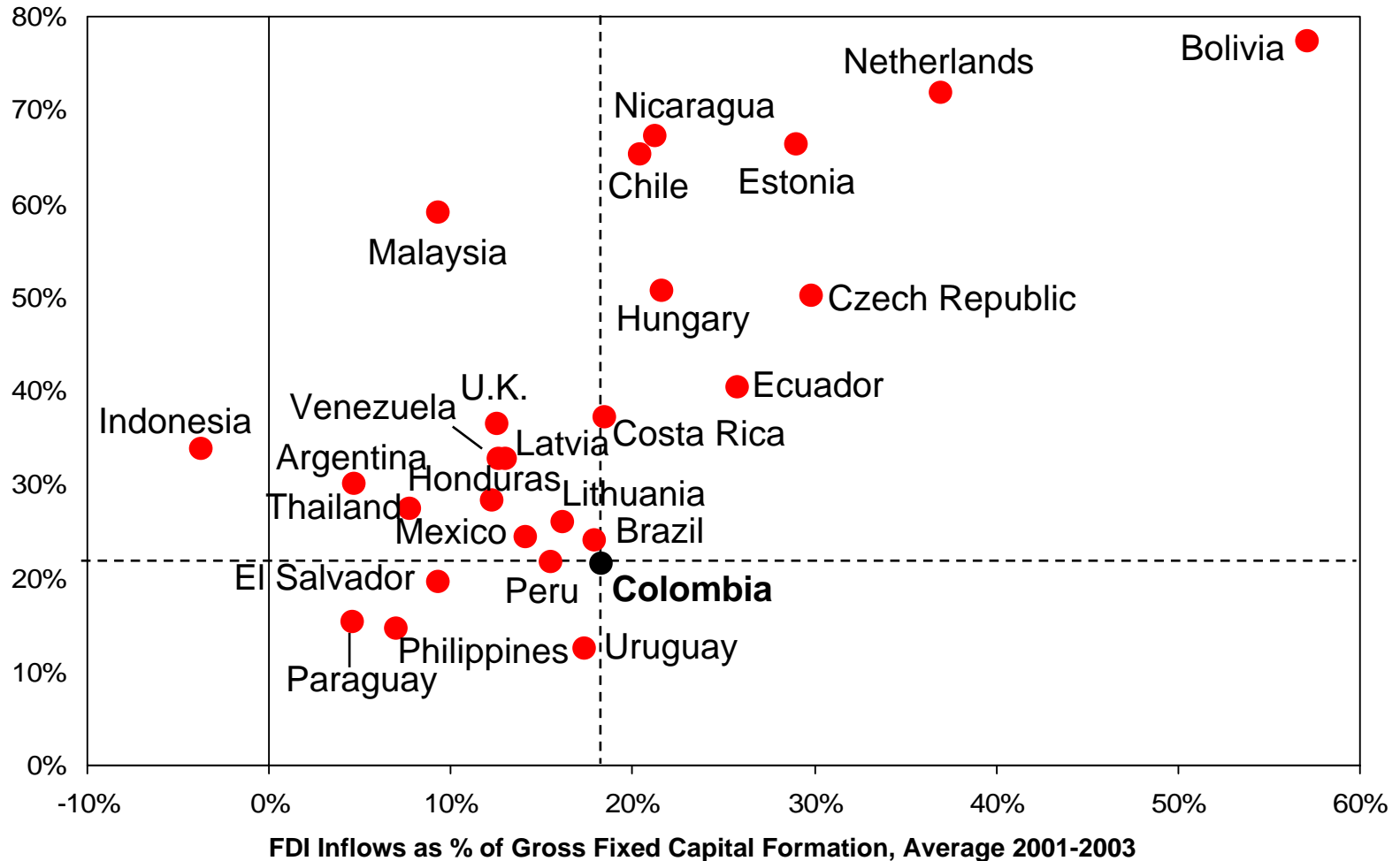


Note: Figures indicate changes since 2002. "+" indicates an increase of 8% or more.

Source: World Bank, author's calculations

Comparative Inward Foreign Investment Selected Countries

FDI Stocks as % of GDP,
Average 2001-2003



Industrial Policy versus Cluster-Based Policy

Industrial Policy

- Target areas of perceived **market demand** or **attractive technology**
- **Intervene** in competition (subsidies, protection, etc.)
- Favor **domestic** companies
- Require sustained **financial commitment** by the public sector
- Centralize decisions at the **national level**
- Has a high **failure rate**; short term impact but low sustainability



Distort and impede competition

Cluster-Based Policy

- Leverage **existing assets, history,** and **geographic location**
- **All** clusters are good
- Enable competition to be more **productive and sophisticated**
- **Neutral** on ownership
- Require sustained **participation** by all actors
- Encourage initiative at **all** geographic levels
- Has rising impact over **time**; some quick successes are possible



Enhance and upgrade competition

National Economic Strategy

National Value Proposition

- What is a **unique competitive position** for Colombia?
 - What roles in world and regional economy?
 - What is Colombia's unique value as a business location?
 - For what range or types of businesses can Colombia be competitive?

Developing Unique Strengths

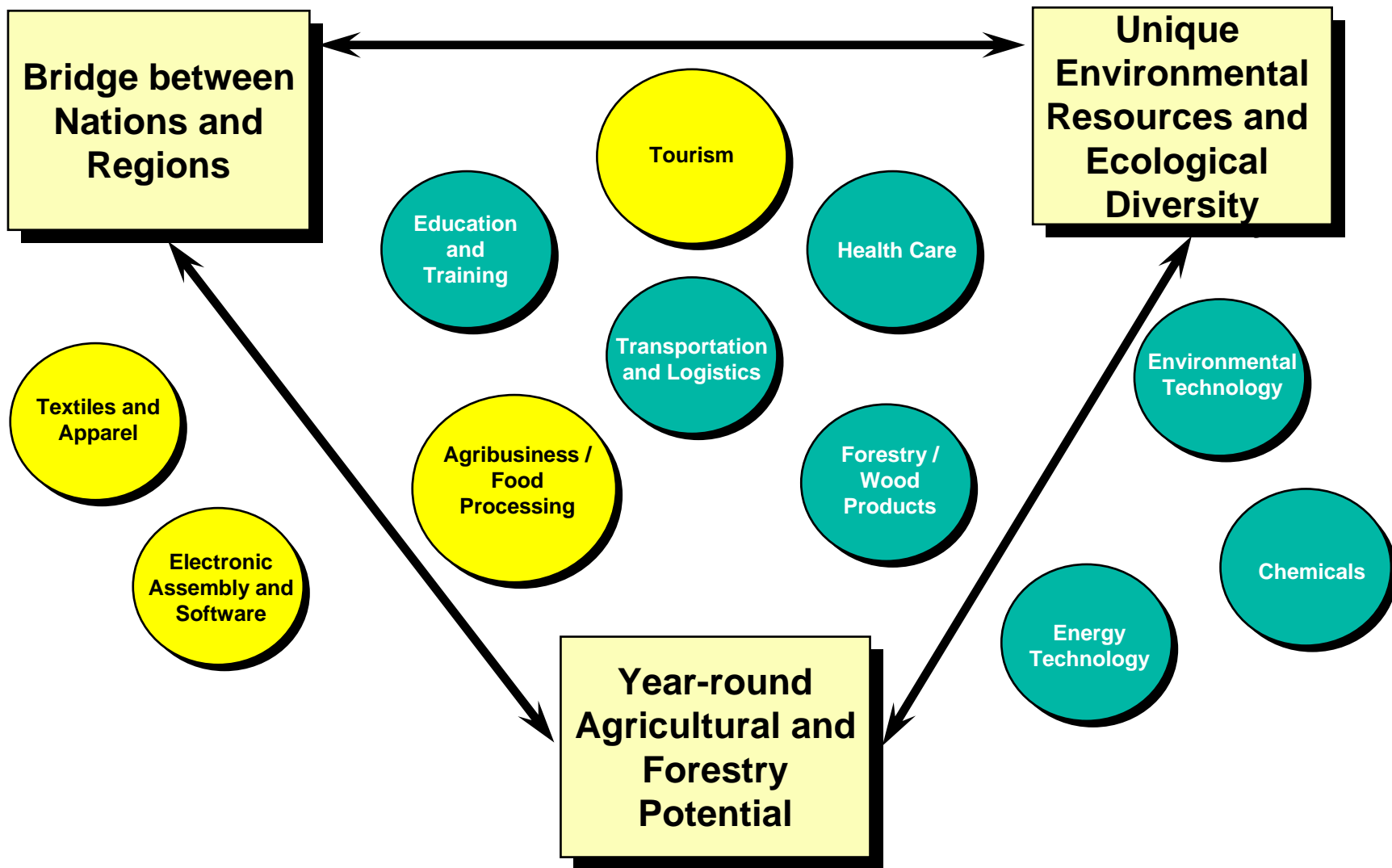
- What **elements of the business environment** are essential to the national value proposition?
- What **existing and emerging clusters** must be mobilized?

Achieving and Maintaining Parity with Peer Countries

- What **macro/political/legal/social improvements** are necessary to maintain parity with peer countries?
- What areas of the **general business environment** must improve to maintain parity with peer countries?

The Competitive Potential of Central America

The Vision in 1996



Towards a Competitiveness Strategy for Colombia

Competitiveness Assessment

Where does Colombia stand in Competitiveness?

- Achieve consensus on the fundamental **concept** of competitiveness and its importance
- Provide an objective **assessment** of Colombia's current competitiveness

Strategic Agenda

What needs to be done?

- Develop an **overall national competitiveness strategy** to position the country
- Define **action priorities** for implementing the strategy

Implementation Structure and Process

How can it be implemented?

- Identify appropriate **roles** for public and private leaders in the competitiveness effort
- Create **institutional structures** to sustain action over time

Competitiveness Initiatives

Critical Success Factors

- Common intellectual framework
- Limited number of prioritized projects
- Sequencing of activities
- Focus on the business environment and clusters, not on individual companies
- Creation of neutral institutions independent of government to support the effort
- A structure that ensures long-term funding and continuity of effort
- Align development aid with the strategy, versus passively accepting donor goals and programs